

UBS Investment Research

India Mobile Sector

India

Wireless Communications

Sector Comment

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Competitive intensity unlikely to worsen

■ Will revenue per minute continue to decline significantly?

The India mobile market is going through a hyper-competitive phase with 10 operators per service area and a few more expected to launch services shortly. As revenue per minute realisation (rev/min) has fallen over 20% in the past year, we examine whether the rapid decline will continue.

■ Proprietary spectrum-linked cost structure analysis to find answers

We interviewed 32 mobile industry participants with an average of more than 10 years experience in the India mobile industry. Based on these interviews, we built proprietary cost and capacity models (linked to allocated spectrum) for greenfield and incumbent operators. We believe an analysis of revenue and costs, based on spectrum, is critical to understanding the pricing dynamics in the Indian mobile sector. We believe such a study has not been undertaken before.

■ UBS view: rev/min unlikely to decline significantly; consolidation likely

We conclude that the cost/min for a new operator would be Rs0.74 compared with Bharti Airtel's (Bharti) cost/min of Rs0.32. This, coupled with the prevailing rev/min of around Rs0.40, implies a new operator is unlikely to reach EBITDA breakeven even at 100% capacity utilisation with the initial allocation of 2x 4.4 MHz. Therefore we believe consolidation is likely as the business case for new entrants hinges on more spectrum. Our analysis suggests availability of additional spectrum is limited.

■ Potential beneficiaries of consolidation: Bharti and Idea Cellular (Idea)

While we remain conservative in our near-term view for the sector by factoring in falling rev/min realisations, we believe there are upside risks to our estimates and valuation for Bharti and Idea if rev/min does not decline significantly. We view incumbents Bharti and Idea as potential beneficiaries of consolidation.

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Contents	page
Executive summary	3
Proprietary capacity analysis	6
— New operator total erlang capacity analysis.....	6
— Incumbents capacity utilisation measure	7
Base station economics	9
— Idea's cost/min in its new circle	12
Limited 2G spectrum availability	13
New operators' revenue under pressure	15
— Recent entrants' service launches not disruptive.....	16
Company pages	18
— Bharti Airtel Ltd.	19
— Idea Cellular.....	28
Appendix	36
— Base station economics for a GBT	36
— Base station economics for an RTT.....	37
— New operators likely to struggle even more.....	38
— Excerpt from <i>Q-Series@: India Mobile Sector—Do new operators have a business case?</i>	42

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Executive summary

The Indian mobile market has entered a phase of hyper competition since the issue of several new licences and Reliance Communications (RCOM) and Tata Teleservices' (Tata DoCoMo) launch of GSM services in 2009. Voice rev/min has declined 20% in the past year. While most analysts and investors are factoring in declining rev/min realisations, we analyse whether rev/min can fall materially from current levels. Our key conclusions are:

- A new operator is severely handicapped by poor quality (1800 MHz band which has a much narrower coverage range) as well as the quantity of spectrum (2x 4.4 MHz spectrum which generates only 25.2 erlangs¹ of voice capacity).
- Even if a new operator fills the voice capacity in a base station, our analysis suggests the operator will not reach EBITDA breakeven at the prevailing rev/min of Rs0.40. This is based on the revenue and associated costs on a per base station basis for a new operator. Our analysis of return on invested capital (ROIC) for a greenfield operator indicates the following:
 - Under the current pricing environment and 2x 4.4 MHz spectrum, the ROIC in FY14 would be -12.3%.
 - To achieve 0% ROIC in FY14, rev/min would need to improve by 37.5% (from Rs0.40 per min to Rs0.55 per min).
 - To achieve ROIC = WACC in FY14, rev/min would need to improve by 75% (from Rs0.40 per min to Rs0.70 per min).
- The only possibility for a new operator to be profitable would be to obtain additional spectrum, in our view. However, our analysis of spectrum availability in India suggests that most new operators are unlikely to receive any additional spectrum.
- Therefore: 1) rev/min might not decline significantly; and 2) consolidation is likely in the Indian mobile sector.

A new operator's spectrum is limited and of poor quality

A new operator is unlikely to achieve EBITDA breakeven at prevailing rev/min

Availability of 2G spectrum is limited

While we factor in declining rev/min realisations for Bharti and Idea, we believe there is upside risk to our estimates.

What is new and non-consensus in this report

- To compare the capacity and cost structure of a new entrant with that of incumbents, we interviewed a cross-section of mobile industry experts including:
 - CTOs of mobile operators
 - India's telecom regulator (TRAI)
 - leading equipment vendors
 - independent tower companies

¹ Erlang is a measure of mobile traffic and is defined as total traffic volume in one hour.

We believe this is the first analysis of its kind of the potential capacity and costs of new mobile operators in India.

New operators have poor quality spectrum

The new entrants have been allocated 2x 4.4 MHz spectrum on the 1800 MHz frequency, which is inferior to 900 MHz because of the limited range of coverage. We estimate an operator will require at least double the number of towers to cover a service area in 1800 MHz relative to 900 MHz.

Table 1: Coverage range

	Dense urban	Urban	Semi urban	Rural	Open area
900 MHz band					
Cell radius (km)	0.80	1.03	3.01	4.66	8.10
Cell area (sq km)	1.25	2.08	17.64	42.42	128.00
1800 MHz band					
Cell radius (km)	0.46	0.60	1.47	2.57	8.10
Cell area (sq km)	0.42	0.70	4.20	12.80	31.50
1800 MHz coverage as a % of 900 MHz	33.6%	33.7%	23.8%	30.2%	24.6%

Note: This assumes an antenna height of 20-25 metres in dense urban, urban and semi-urban areas and 35-40 metres in rural and open areas.

Source: UBS calculations based on interviews with industry participants

Limited voice capacity = higher cost/min

The initial spectrum allocated to a new mobile operator in India is 2x 4.4 MHz. We estimate that a new operator is likely to have 277,200 minutes capacity per base station per month. Based on our analysis, we conclude that the cost per minute for a new operator would be Rs0.74 (compared with Bharti's cost/min of Rs0.32 and Idea's Rs0.36). We believe it will be difficult for a new operator to achieve EBITDA breakeven even if all the 277,200 minutes are sold at an assumed rev/min realisation of Rs0.40. The minutes capacity improves to 596,200 min/month/base station if the new operator is allocated additional spectrum and moves to 2x 6.2 MHz.

We estimate the cost per min for a new operator would be Rs0.74

Table 2: Available capacity

	Bharti	Idea	New operator
Spectrum available	2x 7.8 MHz	2x 6.2 MHz	2x 4.4 MHz
Minutes capacity per base station per month	787,600	596,200	277,200

Source: TRAI, UBS estimates

Further spectrum availability is limited....

According to TRAI, there is no spectrum currently available in nine service areas: Maharashtra, Gujarat, Punjab, Haryana, Uttar Pradesh (E), Uttar Pradesh (W), Rajasthan, Himachal Pradesh and Jammu & Kashmir. There is limited spectrum available in Delhi (3.6 MHz) and Mumbai (2.2 MHz). There are five operators currently waiting for spectrum in Delhi.

...therefore, consolidation appears likely

For a successful nationwide rollout, we estimate an operator would need at least 2x 6.2 MHz spectrum as this would increase voice capacity significantly to accommodate more subscribers. Given the limited spectrum that is available, we think consolidation could be the only way forward for the Indian mobile sector. According to TRAI regulations, the founder's (promoter) equity stake is subject to a three-year lock-in period, effective from the date of the grant of the Unified Access Service Licence (UASL). The three-year lock-in period for most new operators is likely to expire in January 2011.

Given limited spectrum availability, consolidation could be only way forward, in our view

Steep decline in rev/min unlikely from here

We believe further tariff pressure from current levels is likely to be limited, as new operators are unlikely to breakeven at the EBITDA level, even if they are able to fill their voice capacity at prevailing price points.

Further tariff pressure likely to be limited

Reiterate our Buy ratings on Bharti and Idea

We believe the current level of competitive intensity in the India mobile market is unsustainable and consolidation is likely over the next two to three years. We expect Bharti to maintain its dominant position and to benefit from potential consolidation in the sector. We believe both Bharti and Idea are likely to be the key beneficiaries of consolidation as pricing power could emerge post consolidation. We see upside risks to our valuation and estimates if rev/min does not decline significantly from current levels. We believe TRAI recommendations on easing consolidation in India is likely to act as a key positive catalyst for the sector.

Table 3: Sensitivity to rev/min

Change in rev/min	Impact on price target	Impact on FY12E EPS
Idea		
+5.0%	5.8 %	18.6%
-5.0%	-5.8%	-18.6%
Bharti		
+5.0%	5.6%	3.3%
-5.0%	-5.6%	-3.5%

Source: UBS estimates

We maintain our Buy ratings on Bharti and Idea and sum-of-the-parts-based price targets of Rs420.00 and Rs80.00, respectively.

Proprietary capacity analysis

New operator total erlang capacity analysis

We analyse the capacity (measured in erlangs) of one base station depending on the amount of spectrum available. Based on our discussions with 32 industry experts that have an average of more than 10 years experience in the mobile industry in India, we have developed a model to calculate the maximum erlangs available in a specific amount of spectrum.

Table 4: Total usable erlang calculation based on spectrum available

	2x 4.4 MHz	2x 6.2 MHz
Number of carriers (200 KHz per channel)	22	31
Number of carriers used for BCCH	15	15
Number of TRx for BCCH	3	3
Number of carriers for IBS	1	1
Remaining carriers	6	15
Number of TRx remaining	3	8
Total TRx	6	11
Base station configuration	2 x 2 x 2	3 x 4 x 4
Capacity (erlangs)	25.2	54.2

Source: TRAI, UBS calculations based on interviews with industry participants

Table 5: Erlang capacity is a function of number of TRx per sector

Number of TRx per sector	Erlang capacity per sector
1 TRx	2.4
2 TRx	8.4
3 TRx	14.2
4 TRx	20.0
5 TRx	25.8
6 TRx	31.0
7 TRx	38.4

Source: TRAI, UBS calculations based on interviews with industry participants

According to our discussions with industry experts, the amount of spectrum available is divided into multiple carriers or channels of 200 KHz each. This channelisation is normally fixed for a technology (the standard for GSM is 200 KHz with eight timeslots in each). Hence, there are 22 carriers available in 4.4 MHz spectrum. Of these, 15 carriers are reserved for broadcast control channels (BCCH); that is, one carrier in each sector in a five-cell reuse pattern. We assume one carrier is blocked for in-building solutions (IBS). The remaining six carriers (calculated as: total 22 carriers less 15 for BCCH less 1 for IBS) can be used for 3 TRx. Hence, a total of six TRx are available on average in 4.4 MHz, implying a base station configuration of 2 x 2 x 2 (that is, 2 TRx per sector, each base station being divided into three sectors with 120 degrees coverage).

Total capacity:

277,200 minutes per month per base station on 2x 4.4 MHz spectrum

596,200 minutes per month per base station on 2x 6.2 MHz spectrum

Referring to Table 5, a 2 x 2 x 2 base station configuration implies total erlang capacity of 25.2 erlangs. Similarly there are 54.2 erlangs of capacity available in 6.2 MHz spectrum (see Table 4 for details).

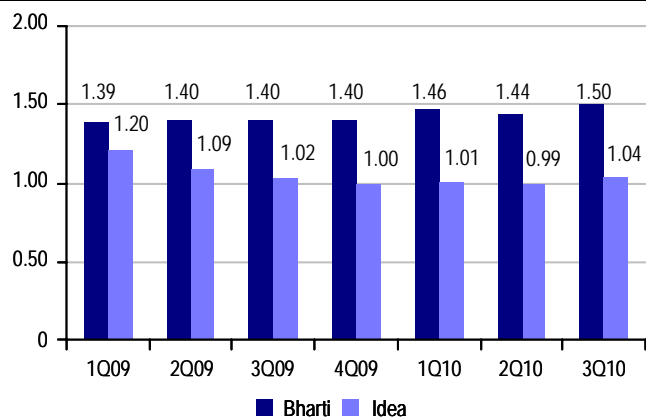
Based on our discussions with mobile technology experts, we assume that 1 mili erlang corresponds to 11 minutes. Hence the total capacity in minutes is 277,200 minutes per month on 2x 4.4 MHz spectrum and 596,200 minutes per month on 6.2 MHz spectrum.

Based on our discussions with equipment vendors, we believe the maximum configuration possible on 2x 4.4 MHz is 3 x 2 x 2, which is likely to be installed in only a few base stations. Also, sites on highways are likely to have 1 x 1 x 1 x configurations. On average, we think a new operator is likely to install 2 x 2 x 2 configuration base stations in most districts.

Incumbents capacity utilisation measure

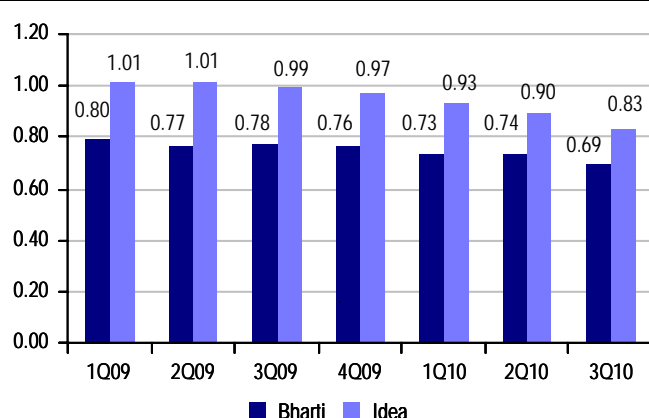
We use minutes generated per base station to measure the capacity utilisation of the incumbents. Bharti's capacity utilisation, as measured by mobile minutes carried per network site, has increased over the past few quarters, from 1.31 in Q1 FY08 to 1.50 in Q3 FY10. This increased utilisation of network capacity has resulted in a decrease in the cost per min and capex per minute over the past few quarters. As can be seen in Chart 1, Bharti has significantly higher capacity utilisation (measured as minutes per site) than Idea. This has led to lower capex/min and lower opex/min and has resulted in superior returns.

Chart 1: Minutes per BTS per quarter (m)



Source: Company data

Chart 2: Capex/min (Rs/min)



Source: Company data

We assume Bharti has an average 7.8 MHz spectrum while Idea has 6.2 MHz (refer to Table 12 details on the spectrum that mobile operators have in each service area).

Table 6: Capacity utilisation estimates for Bharti and Idea

	Bharti	Idea
Spectrum available (UBS assumption)	2x 7.8 MHz	2x 6.2 MHz
Number of carriers (200 KHz per channel)	39	31
Number of carriers for Broadcast Channel (BCCH)	15	15
Number of TRx for BCCH	3	3
Number of carriers for IBS	1	1
Remaining carriers	23	15
Number of TRx remaining	11	8
Total TRx	14	11
Base station configuration	5 x 5 x 4	4 x 4 x 3
Capacity (erlangs)	71.6	54.2
Capacity (minutes; 1 mili erlang ~ 11 mins)	787,600	596,200
Minutes per tower per month	499,856	345,501
Capacity utilisation	63.5%	58.0%

Source: UBS estimates

Based on our calculations (see table above), we believe Bharti is likely to have a base station configuration of 5 x 5 x 4 on average (five antennas in two sectors and four antennas in one sector). This implies Bharti has 71.6 usable erlangs, implying total capacity of 787,600 minutes per base station per month. Bharti currently generates 499,856 minutes per base station per month, thus 63.5% capacity utilisation. Similarly, Idea has 58.0% capacity utilisation assuming it has 2x 6.2 MHz spectrum on average in each service area (as Idea is a new entrant in a few service areas where it has only 2x 4.4 MHz spectrum, we assume Idea has less spectrum than Bharti).

We estimate Bharti has 63.5% capacity utilisation and Idea 58.0%

Base station economics

We analyse the profitability of one base station for a new operator on 2x 4.4 MHz spectrum and what would happen if it receives 2x 1.8 MHz additional spectrum.

We estimate a new operator's cost per minute would be Rs0.74/min

We conclude that the cost per minute for a new operator would be Rs0.74/min assuming 50% capacity utilisation. We believe it will be difficult for a new operator to achieve EBITDA breakeven on a 2 x 2 x 2 configuration base station, assuming 50-60% capacity utilisation. We believe a new entrant will require additional spectrum to become economically viable.

A new operator is unlikely to achieve EBITDA breakeven on a 2 x 2 x 2 configuration base station

Table 7: Cost per minute and EBITDA margin analysis for one base station

(Rs)	2x 4.4 MHz spectrum			2x 6.2 MHz spectrum		
	Scenario 1	Scenario 2	Scenario 3	Scenario 1	Scenario 2	Scenario 3
Number of minutes per BTS per month (capacity)	277,200	277,200	277,200	596,200	596,200	596,200
Capacity utilisation	50%	55%	60%	50%	55%	60%
Number of minutes generated per BTS per month	138,600	152,460	166,320	298,100	327,910	357,720
Voice revenue per min	0.40	0.40	0.40	0.40	0.40	0.40
Voice revenue	55,440	60,984	66,528	119,240	131,164	143,088
Non voice as a % of total revenue	4.0%	6.0%	8.0%	4.0%	6.0%	8.0%
Total revenue	57,750	64,877	72,313	124,208	139,536	155,530
Rent per tower per month	(33,250)	(33,250)	(33,250)	(33,250)	(33,250)	(33,250)
Diesel and electricity costs per tower per month	(25,000)	(25,000)	(25,000)	(25,000)	(25,000)	(25,000)
Backhaul costs	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)
Other network operating costs	(3,465)	(3,893)	(4,339)	(3,465)	(3,893)	(4,339)
Access charges	(4,574)	(5,031)	(5,489)	(9,837)	(10,821)	(11,805)
Licence fee per month	(5,318)	(5,985)	(6,682)	(11,437)	(12,872)	(14,373)
Employee cost	(3,465)	(3,893)	(4,339)	(3,465)	(3,893)	(4,339)
Subscriber acquisition & service charges	(5,775)	(6,488)	(7,231)	(12,421)	(13,954)	(15,553)
Recharge commission	(2,310)	(2,595)	(2,893)	(4,968)	(5,581)	(6,221)
Billing, customer care and IT services	(2,888)	(3,244)	(3,616)	(6,210)	(6,977)	(7,777)
SG&A	(6,930)	(7,785)	(8,678)	(6,930)	(7,785)	(8,678)
Total operating expense	(102,974)	(107,163)	(111,516)	(126,984)	(134,025)	(141,333)
Cost/min	0.74	0.70	0.67	0.43	0.41	0.40
EBITDA	(45,224)	(42,286)	(39,203)	(2,776)	5,511	14,197
EBITDA/min	(0.33)	(0.28)	(0.24)	(0.01)	0.02	0.04

Source: UBS estimates

We assume the following in our analysis:

Revenue per base station per month for a new operator

We assume three scenarios with capacity utilisation rates of 50%, 55% and 60%. We assume revenue per minute for a new operator is Rs0.40/min. We assume non-voice revenue of 4-8%.

We believe the maximum possible capacity utilisation achievable is 70%, as there is normally a difference between network assumptions and reality. For example, cell sites are not uniformly distributed in a regular geometric grid.

We believe filling up the network will be a challenge for a new operator, as the majority of subscribers that are likely to switch to/choose a new operator will be in the deal-seeking segment, where usage is unlikely to be high. A new operator is unlikely to attract post-paid subscribers because of its late entrant disadvantage.

Costs analysis per base station per month for a new operator

- **Network operating costs:** We divide network operating costs into passive infrastructure costs and other network operating costs (such as maintenance costs related to active infrastructure).

We assume the new operator will share passive infrastructure as opposed to building it, as passive infrastructure decreases capex and helps faster network coverage. However, it would lead to higher opex, but lower depreciation expenses for a new operator.

We assume a rental of Rs33,250 per base station per month. This assumes 65% of towers are ground-based towers (GBT) where the rent is Rs35,000 per tower per month and 35% of towers are roof-top towers (RTT) where the rent is Rs23,000 per tower per month. We assume additional rent of Rs7,000 for RTTs as land or site lease rentals beyond a fixed amount are generally a pass-through for mobile operators. We expect fuel costs of Rs25,000 per tower per month. We expect backhaul costs (connectivity from base station to base station controller and mobile switching centre) to be an additional Rs10,000 per tower per month.

We expect a new operator to launch nationwide services with 30,000 base stations and leverage intra-circle roaming to achieve nationwide coverage. We assume other network costs at 6% of revenue.

- **Access charges and intra circle roaming**

We assume 75% of total calls made are off-net calls and 60% of total calls on the network are outgoing calls. We assume 90% of the total calls are local calls on which a new operator is likely to pay interconnect charges of Rs0.20/min. We assume the remaining 10% calls are long distance, on which a new operator is likely to pay Rs0.40/min (compared with the TRAI-imposed ceiling of Rs0.65/min).

Table 8: Assumptions to calculate access charges

	4.4 MHz			6.2 MHz		
	Scenario 1	Scenario 2	Scenario 3	Scenario 1	Scenario 2	Scenario 3
Total minutes generated	138,600	152,460	166,320	298,100	327,910	357,720
% off net calls	75.0%	75.0%	75.0%	75.0%	75.0%	75.0%
Incoming minutes	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%
Outgoing minutes	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%
Net outgoing minutes	20,790	22,869	24,948	44,715	49,187	53,658
% local calls	90%	90%	90%	90%	90%	90%
% DLD + ILD calls	10%	10%	10%	10%	10%	10%
Domestic termination charges	0.20	0.20	0.20	0.20	0.20	0.20
Carriage charges	0.40	0.40	0.40	0.40	0.40	0.40
Access charges	4,574	5,031	5,489	9,837	10,821	11,805

Source: UBS estimates

- **Licence fees:** This varies as it is based on a percentage of adjusted gross revenue. We assume a licence fee of 10% of adjusted gross revenue (AGR, gross revenue less access charges).

Table 9: Licence fee and spectrum fee payable

	Licence fee (% of AGR)		Spectrum fee (% of AGR)
Metros	10%	2x 4.4 MHz	2%
Service area 'A'	10%	2x 6.2 MHz	3%
Service area 'B'	8%	2x 8.8 MHz	4%
Service area 'C'	6%	2x 10.0 MHz	4%

Source: TRAI, DoT

- **Indirect costs:** We assume the following indirect costs in our analysis:
 - employee costs at 6% of revenue
 - subscriber acquisition costs at 10% of revenue
 - recharge commission paid to a dealer at 4% of revenue
 - billing, customer care and IT services cost at 5% of revenue
 - other SG&A costs at 12% of revenue, as a new entrant is likely to spend heavily on marketing and advertising to build a brand.

Idea's cost/min in its new circle

Idea's cost/min is Rs0.72 in its service areas where it has launched services on the 1800 MHz frequency in the past six quarters. We believe a new operator is likely to incur even higher costs, given that Idea, as a nationwide operator, has advantages such as lower marketing and call centre costs over new operators.

Idea's cost per min is Rs0.72 in its new service areas, where it has 2x 4.4 MHz spectrum on the 1800 MHz frequency

Table 10: Idea's cost per minute in new service areas

Service areas included	Q2 FY09	Q3 FY09	Q4 FY09	Q1 FY10	Q2 FY10	Q3 FY10
	Mumbai	Mumbai Bihar	Mumbai Bihar	Mumbai Bihar Orissa TN	Mumbai Bihar Orissa TN Chennai	Mumbai Bihar Orissa TN Chennai J&K Kolkata WB Assam NE
Revenue (Rs m)	52	483	985	1427	1822	2384
- Voice revenue (UBS-e)	48	444	906	1,313	1,676	2,193
- Non-voice revenue (UBS-e)	4	39	79	114	146	191
EBITDA (Rs m)	(337)	(765)	(654)	(654)	(830)	(1,288)
Operating costs (Rs m)	389	1,248	1,639	2,081	2,652	3,672
Rev/min (UBS-e)	0.57	0.59	0.59	0.53	0.51	0.47
Minutes (m)	84	756	1,544	2,472	3,269	4,666
Cost/min (Rs/min)	4.26	1.52	0.98	0.77	0.75	0.72

Source: Company data, UBS estimates

Limited 2G spectrum availability

According to TRAI data, there is no spectrum available in nine service areas: Maharashtra, Gujarat, Punjab, Haryana, Uttar Pradesh (E), Uttar Pradesh (W), Rajasthan, Himachal Pradesh and Jammu & Kashmir. There is limited spectrum available in Delhi (3.6 MHz) and Mumbai (2.2 MHz). There are five operators currently pending spectrum allocation in Mumbai.

Table 11: Additional 2G spectrum currently available for allocation

Circle	Total 2G spectrum allocated (MHz)	Number of operators who have been allocated spectrum	Number of operators waiting for spectrum	Total 2G spectrum available (MHz)
Metros				
Delhi	53.6	7	5*	3.6
Mumbai	72.6	11	-	2.2
Kolkata	60.4	10	-	18.0
Chennai	66.6	11	-	20.0
'A' service areas				
Maharashtra	69.4	12	-	-
Gujarat	60.4	11	-	-
Andhra Pradesh	69.4	12	-	14.2
Karnataka	69.4	12	-	9.8
Tamil Nadu	67.0	11	-	20.0
'B' service areas				
Kerala	61.2	11	-	28.0
Punjab	63.2	12	-	-
Haryana	63.8	12	-	-
U.P.(West)	61.2	11	-	-
U.P.(East)	62.4	11	-	-
Rajasthan	63.8	12	-	-
Madhya Pradesh	63.0	11	-	40.0
West Bengal	53.0	10	1**	4.4
'C' service areas				
Himachal Pradesh	57.6	11	-	-
Bihar	66.8	12	1**	4.4
Orissa	59.4	11	1**	18.0
Assam	55	10	1**	4.4
North East	53.2	10	1**	4.4
Jammu & Kashmir	49.4	10	-	-

Note: *Spectrum could not be assigned because of lack of availability. **Spectrum available, but could not be assigned in the absence of a service licence agreement.

Source: TRAI

Table 12: Service area GSM spectrum (900 MHz + 1800 MHz) allocated

	Bharti	Vodafone	MTNL	Idea	Aircel	RCOM	Etisalat	DB	Datacom	Uninor	Loop	Tata	DoCoMo	BPL	HFCL	Allianze	Infra	S-Tel	BSNL	Shyam	
Delhi	10.0	10.0	12.4	8.0	4.4	4.4	4.4					-	-	-	-	-	-	-	-	-	
Mumbai	9.2	10.2	12.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	-	4.4	10.0	-	-	-	-	-	-	-	
Chennai	8.6	8.0	-	-	8.6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	10.0	
Kolkata	8.0	9.8	-	4.4	4.4	6.2	-	4.4	4.4	4.4	4.4	4.4	-	-	-	-	-	-	-	10.0	
Maharashtra	8.2	6.2	-	9.8	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	-	-	-	-	-	-	-	10.0	
Gujarat	6.2	9.8	-	6.2	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	-	-	-	-	-	-	-	7.4	
AP	10.0	6.2	-	8.0	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	-	-	-	-	-	-	-	10.0	
Karnataka	10.0	8.0	-	6.2	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	-	-	-	-	-	-	-	10.0	
TN	9.2	7.2	-	4.4	9.8	4.4	4.4	4.4	4.4	4.4	4.4	4.4	-	-	-	-	-	-	-	10.0	
Kerala	6.2	6.2	-	8.0	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	-	-	-	-	-	-	-	10.0	
Punjab	7.8	6.2	-	7.8	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	-	4.4	-	-	-	-	-	6.2	
Haryana	6.2	6.2	-	6.2	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	-	-	-	-	-	-	-	10.0	
UP (W)	6.2	6.2	-	8.0	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	-	-	-	-	-	-	-	10.0	
UP (E)	7.2	8.2	-	6.2	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	-	-	-	-	-	-	-	10.0	
Rajasthan	8.2	6.2	-	6.2	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	-	-	-	-	-	-	-	8.0	4.4
MP	8.0	4.4	-	8.0	4.4	6.2	-	4.4	4.4	4.4	4.4	4.4	-	-	-	4.4	-	-	-	10.0	
WB	6.2	6.2	-	4.4	4.4	6.2	-	4.4	4.4	4.4	4.4	4.4	-	-	-	-	-	-	-	8.0	
HP	6.2	4.4	-	4.4	4.4	6.2	-	4.4	4.4	4.4	4.4	4.4	-	-	-	-	4.4	4.4	10.0		
Bihar	9.2	4.4	-	4.4	4.4	8.0	-	4.4	4.4	4.4	4.4	4.4	-	-	-	4.4	4.4	4.4	10.0		
Orissa	8.0	4.4	-	4.4	4.4	6.2	-	4.4	4.4	4.4	4.4	4.4	-	-	-	-	4.4	4.4	10.0		
Assam	6.2	4.4	-	4.4	6.2	6.2	-	4.4	4.4	4.4	4.4	4.4	-	-	-	-	-	-	10.0		
NE	6.2	4.4	-	4.4	4.4	6.2	-	4.4	4.4	4.4	4.4	4.4	-	-	-	-	4.4	4.4	10.0		
J&K	6.2	4.4	-	4.4	4.4	4.4	-	4.4	4.4	4.4	4.4	4.4	-	-	-	-	4.4	4.4	8.0		

Note: Excludes 4.4 MHz spectrum allocated to Spice in Maharashtra, Andhra Pradesh and Haryana and 4.4 MHz spectrum allocated to Idea in Karnataka.

Source: TRAI

New operators' revenue under pressure

We believe revenue per minute has declined significantly and further tariff pressure is likely to be limited from current levels. As the cost per minute is likely to be high for new operators, we believe they are unlikely to compete on pricing. Gross revenue data from TRAI indicates that RCOM and Tata DoCoMo have reported a decline in revenue for 2009, despite their GSM launches gaining significant subscriber market share.

New operators unlikely to gain meaningful revenue share

Although there is substantial potential for subscriber growth in the telecom market in India, we think the subscriber market share in the current scenario has lost its relevance, as new subscribers might not generate significant revenue for operators. Rather, we think the challenges before the operators lie in translating subscriber growth to revenue growth. Therefore, we believe revenue market share will be a relevant metric to gauge competitive strength.

Based on TRAI data, we believe new operators have failed to translate subscriber growth to revenue growth. RCOM's revenue declined Rs6.3bn (-4.8% YoY) in 2009 and Tata Tele's Rs3.3bn (-4.0% YoY). While new operators' service launches have added pressure on the subscriber market share of existing GSM operators such as Bharti, existing operators still reported revenue growth in 2009.

Table 13: Gross revenue reported to TRAI

Rs m	2007	2008	% growth	2009	% growth
Bharti Airtel	224,172	312,697	39.5%	351,639	12.5%
Vodafone	141,031	192,168	36.3%	218,738	13.8%
Idea (incl. Spice)	63,238	104,855	65.8%	129,364	23.4%
RCOM (GSM+CDMA)	121,588	131,920	8.5%	125,628	-4.8%
BSNL (incl. MTNL)	108,889	116,970	7.4%	110,866	-5.2%
Tata Teleservices	73,260	82,495	12.6%	79,228	-4.0%
Aircel	22,054	30,515	38.4%	38,032	24.6%
Others	28,373	9,586	-66.2%	11,711	22.2%
Market – Total	782,605	981,204	25.4%	1,065,206	8.6%

Source: TRAI

Recent entrants' service launches not disruptive

Given the high cost/min due to the lack of spectrum and poor spectrum quality and scale, it appears that the new operators are not making pricing moves that could be disruptive. For example, the Uninor (Unitech-Telenor) and Datacom (Videocon) services have not been launched at significantly lower tariffs.

Uninor and Videocon service launches have not been at significantly lower tariffs

Uninor tariffs

Uninor launched GSM services in December 2009 with the following tariff plans:

- Callmore@29p plan: local calls at Rs0.29/min and long distance (NLD) calls at Rs0.49/min for a daily rental of Rs2/day.
- Talkmore@29p plan: local calls at Rs0.29/min and NLD calls at Rs0.49/min for a call set-up fee of Rs0.39.

UBS view on Uninor launch

Our analysis suggests a rev/min of Rs0.41-0.45/min for Uninor (refer to Table 15), which would not be disruptive. We assume an average three-minute call for the talkmore@29p plan in our analysis. We think reaching critical mass in minutes carried could be an uphill task for Uninor.

Videocon tariffs

Videocon has launched mobile services in Tamil Nadu and plans to invest Rs140bn over next three years and aims to attract 100m subscribers.

- Videocon has launched 1 paise (p)/second tariff for local and long distance for a recharge of Rs31/year (Rs25 talk time) or Rs61/year (Rs56 talk time).
- For medium usage subs, it has launched 1p/sec plan for local and long distance calls with 30 minutes each of local on-net and local off-net calls free per day for Rs149/month.
- For very heavy usage subs, it has launched free unlimited local usage and NLD at Rs1/sec for a recharge of Rs399/month.

UBS view on Videocon launch

We believe Videocon's per second plans (FRC31 and FRC61) are not disruptive as they result in voice rev/min of Rs0.41/min. Videocon seems to target medium to heavy local call users with its FRC149 and FRC399 plans. Assuming 1,000 minutes of use per month (MOU) and local calls at 90% of total calls, voice rev/min for the FRC399 plan is Rs0.51/min and Rs0.41/min for the FRC149 plan assuming MOU of 500 minutes.

Our analysis suggests these plans are not disruptive as the average MOU for the majority of prepaid users is 200-300 minutes.

Table 14: Videocon prepaid tariff plans in Tamil Nadu

	FRC 31	FRC 61	FRC 149	FRC 399
Starter pack cost (Rs)	Rs31	Rs61	Rs149	Rs399
Free talk time (Rs)	Rs25	Rs61	Rs0	Rs0
Local call charge	Rs0.01/Sec	Rs0.01/Sec	Rs0.01/Sec	Nil
National long distance call charge	Rs0.01/Sec	Rs0.01/Sec	Rs0.01/Sec	Rs0.01/Sec
Validity	365 days	365 days	30 days	30 days
Additional features			30 min of local off-net, 30 min of local on-net calling per day	Unlimited local usage

Source: Company data

Table 15: Revenue per minute analysis of Uninor and Videocon's prepaid tariff plans

	Uninor plans		Videocon plans					
	Talk more @29p	Call more @29p	FRC31	FRC61	FRC149 Scenario 1	FRC149 Scenario 2	FRC399 Scenario 1	FRC399 Scenario 2
MOU (mins) (UBS assumption)	330	330	330	330	330	500	750	1000
Incoming MOU as % of total (UBS assumption)	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%
On-net traffic as % to total (UBS assumption)	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Incoming MOU (mins)	132	132	132	132	132	200	300	400
Incoming minutes off-net (mins)	99	99	99	99	99	150	225	300
Outgoing MOU (mins)	198	198	198	198	198	300	450	600
Outgoing MoU - On-net	149	149	149	149	149	225	338	450
Local termination charges (Rs/min)	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
NLD/ILD termination charges (Rs/min)	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Blended IUC charges (Rs/min)	0.23	0.23	0.23	0.23	0.23	0.22	0.22	0.22
Revenue from incoming off-net calls (Rs)	22.6	22.6	21.5	22.6	22.6	21.8	33.0	49.5
Local calls % of outgoing MOU (UBS assumption)	86.0%	86.0%	86.0%	86.0%	90.0%	90.0%	90.0%	90.0%
NLD calls % of outgoing MOU (UBS assumption)	13.5%	13.5%	13.5%	13.5%	9.5%	9.5%	9.5%	9.5%
ILD calls % of outgoing MOU (UBS assumption)	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Local on-net tariff (Rs/min)	0.34	0.34	0.60	0.60	0.00	0.00	0.00	0.00
Local off-net tariff (Rs/min)	0.34	0.34	0.60	0.60	0.00	0.00	0.00	0.00
NLD on-net tariff (Rs/min)	0.59	0.59	0.60	0.60	0.60	0.60	0.60	0.60
NLD off-net tariff (Rs/min)	0.59	0.59	0.60	0.60	0.60	0.60	0.60	0.60
ILD tariff (Rs/min)	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Revenue from outgoing calls (Rs)	81.6	81.6	126.1	126.1	19.2	29.1	43.7	58.2
Revenue from extra charges (Rs)	42.9	60.0	0.0	0.0	149.0	149.0	399.0	399.0
Total revenue from outgoing calls (Rs)	124.5	141.6	126.1	126.1	168.2	178.1	442.7	457.2
Total revenue (outgoing & interconnect) (Rs)	147.1	164.2	148.7	148.7	190.0	211.1	492.2	523.2
Gross realised revenue per minute	0.45	0.50	0.45	0.45	0.58	0.42	0.66	0.52

Note: We assume average call duration of 3 minutes to calculate the revenue from additional charges for Uninor talkmore@29p plan.

Source: Company data, UBS estimates

[Company pages](#)



UBS Investment Research

Bharti Airtel Ltd.

Global Equity Research

India

Wireless Communications

12-month rating **Buy**
Unchanged

12m price target **Rs420.00/US\$9.45**
Unchanged

Price **Rs312.80/US\$7.04**

RIC: BRTI.BO BBG: BHARTI IB

Trading data (local/US\$)

52-wk range	Rs468.80-272.45/US\$9.80-5.90
Market cap.	Rs1,187bn/US\$26.7bn
Shares o/s	3,795m (ORD)
Free float	32%
Avg. daily volume ('000)	1,483
Avg. daily value (Rsm)	449.4

Balance sheet data 03/10E

Shareholders' equity	Rs385bn
P/BV (UBS)	3.1x
Net Cash (debt)	Rs1.70bn

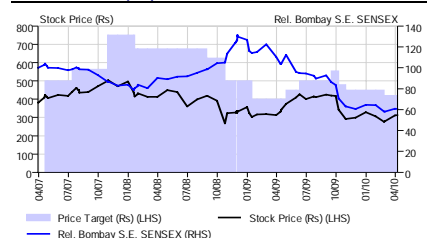
Forecast returns

Forecast price appreciation	+34.3%
Forecast dividend yield	2.3%
Forecast stock return	+36.6%
Market return assumption	12.8%
Forecast excess return	+23.8%

EPS (UBS, Rs)

	03/10E		03/09
	UBS	Cons.	Actual
Q1	6.64	6.98	5.37
Q2	6.12	-	5.42
Q3	5.83	-	5.82
Q4E	5.12	-	5.92
03/10E	23.71	23.81	
03/11E	21.22	21.80	

Performance (Rs)



Source: UBS

www.ubs.com/investmentresearch

Could be stronger post consolidation

■ Rev/min unlikely to decline significantly from current levels

Bharti's voice rev/min has declined 20% in the past year (from Rs0.58/min in Q3 FY09 to Rs0.46/min in Q3 FY10). We believe further tariff pressure is likely to be limited from current levels, because of new operators' high cost structure and limited spectrum availability. We believe the cost/min of new operators is high at Rs0.74/min compared with Bharti's Rs0.32/min.

■ Consolidation likely; strong company could emerge stronger

We believe the current level of competitive intensity is unsustainable in the mobile market and consolidation is likely over the next two to three years. We expect Bharti to maintain its dominant position and to benefit from potential sector consolidation. Bharti is focused on rationalising its cost structure in this highly competitive environment and is likely to reap the benefits from any pricing power that emerges post consolidation.

■ Zain acquisition likely to be a positive in the long term

Bharti has announced the acquisition of Zain Africa (ex Sudan and Morocco) at an EV of US\$10.7bn, valued at 9.7x December 2010E EV/EBITDA. We believe Bharti is likely to transport its low cost model to Africa where it has the potential to improve usage significantly. There may also be synergies in network equipment procurement and the transfer of best practice from the India mobile market. We expect the transaction to be EPS-accretive from FY13.

■ Valuation: maintain Buy rating and a SOTP-based price target of Rs420

We believe there is upside risk to our estimates and valuation if rev/min does not decline significantly from current levels. 3G and broadband wireless access (BWA) auction-related newsflow could lead to further share price weakness; we would view any related weakness as an attractive buying opportunity.

Highlights (Rsm)	03/08	03/09	03/10E	03/11E	03/12E
Revenues	270,250	369,615	394,799	417,625	449,218
EBIT (UBS)	76,455	104,097	100,473	91,075	93,002
Net Income (UBS)	67,008	85,412	89,879	80,410	82,551
EPS (UBS, Rs)	17.68	22.54	23.71	21.22	21.78
Net DPS (UBS, Rs)	0.00	2.00	2.37	6.36	13.07

Profitability & Valuation	5-yr hist av.	03/09	03/10E	03/11E	03/12E
EBIT margin %	23.7	28.2	25.4	21.8	20.7
ROIC (EBIT) %	26.4	31.9	28.7	27.8	26.8
EV/EBITDA (core) x	14.1	9.6	7.2	7.4	6.5
PE (UBS) x	24.8	16.2	13.2	14.7	14.4
Net dividend yield %	0.0	0.5	0.8	2.0	4.2

Source: Company accounts, Thomson Reuters, UBS estimates. (UBS) valuations are stated before goodwill, exceptional and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs312.80 on 08 Apr 2010 23:39 HKT

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Table 16: Key assumptions for Bharti

YE 31 March (Rs m)	2009A	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Mobile business											
Total mobile subscribers (m)	386	538	666	770	859	937	1,006	1,065	1,113	1,150	1,177
Bharti mobile subscribers (m)	94	126	151	170	187	201	214	226	235	242	248
Subscriber market share	24.3%	23.4%	22.7%	22.1%	21.7%	21.4%	21.3%	21.2%	21.1%	21.1%	21.0%
Incremental subscriber market share	24.6%	21.1%	19.4%	18.7%	18.3%	18.3%	19.2%	19.4%	19.5%	19.6%	20.0%
Bharti's mobile revenue (Rs bn)	304	323	338	358	415	467	514	560	602	636	665
Blended ARPU (Rs/sub/month)	325	245	203	186	194	201	206	212	218	222	226
% change	-12.0%	-24.6%	-17.0%	-8.6%	4.4%	3.6%	2.8%	2.8%	2.8%	1.9%	1.9%
Voice ARPU (Rs/sub/month)	293	219	179	163	171	178	183	189	194	198	202
Blended MOU (min/sub/month)	513	454	430	429	429	434	438	442	447	451	456
Minutes generated on the network (bn)	475.3	599.3	719.0	829.2	919.5	1,008.3	1,090.6	1,166.6	1,233.8	1,291.2	1,339.2
% change		26.1%	20.0%	15.3%	10.9%	9.7%	8.2%	7.0%	5.8%	4.7%	3.7%
Voice revenue per min. realisation	0.57	0.48	0.42	0.38	0.40	0.41	0.42	0.43	0.44	0.44	0.44
% change	-17.2%	-15.5%	-13.9%	-9.0%	5.0%	3.0%	2.0%	2.0%	2.0%	1.0%	1.0%
Cost per min	0.40	0.33	0.30	0.27	0.27	0.28	0.28	0.28	0.28	0.28	0.29
EBITDA per min	0.18	0.15	0.12	0.11	0.12	0.13	0.14	0.15	0.15	0.16	0.16
EBITDA margin	34.2%	31.3%	29.1%	28.9%	31.2%	32.3%	33.4%	34.4%	35.0%	35.5%	35.5%
Capex/sales	33.2%	11.8%	13.0%	12.0%	10.0%	9.5%	9.0%	8.5%	8.0%	8.0%	8.0%
Fixed-line business											
Bharti's fixed-line subscribers (m)	2.73	3.04	3.24	3.44	3.80	4.16	4.52	4.76	5.00	5.24	5.48
ARPU (Rs/sub/month)	1,114	982	924	884	846	809	793	777	769	762	754
% change	-2.1%	-11.8%	-5.9%	-4.3%	-4.3%	-4.3%	-2.0%	-2.0%	-1.0%	-1.0%	-1.0%
Revenue	33,517	34,225	34,798	35,413	36,728	38,634	41,287	43,258	45,041	46,784	48,488
EBITDA margin	42.4%	43.4%	43.0%	42.0%	41.0%	41.0%	40.5%	40.5%	40.0%	40.0%	40.0%
Capex/sales	42.0%	28.6%	25.0%	24.0%	22.0%	19.9%	17.7%	10.7%	9.8%	9.0%	8.3%
Enterprise business											
Bharti enterprise revenue (Rs m)	84,882	84,167	88,104	95,366	106,810	117,491	126,891	135,773	142,562	149,690	157,174
% growth	50.5%	-0.8%	4.7%	8.2%	12.0%	10.0%	8.0%	7.0%	5.0%	5.0%	5.0%
EBITDA margin	44.5%	49.2%	46.0%	46.0%	45.0%	45.0%	45.0%	45.0%	44.0%	43.0%	42.0%
Capex/sales	24.1%	14.7%	16.0%	15.0%	13.0%	12.0%	12.0%	10.0%	9.0%	9.0%	9.0%

Source: Company data, UBS estimates

Table 17: Bharti minutes based KPI

	Q108	Q208	Q308	Q408	Q109	Q209	Q309	Q409	Q110	Q210	Q310
Mobile revenue (Rs m)	46,976	50,579	56,105	64,201	69,150	72,843	79,392	82,216	82,285	80,994	79,618
% non-voice revenue	9.9%	9.8%	9.3%	9.4%	9.7%	10.0%	9.5%	9.3%	9.3%	9.8%	11.0%
Voice revenue (Rs m)	42,325	45,622	50,887	58,166	62,442	65,559	71,850	74,570	74,632	73,057	70,860
Mobile minutes carried (m)	57,125	64,375	73,840	89,058	105,217	115,834	123,626	130,669	140,713	143,680	153,241
Network sites	43,658	52,826	60,299	69,141	75,876	82,554	88,319	93,368	96,149	99,501	102,190
Mobile minutes carried per site (m)	1.31	1.22	1.22	1.29	1.39	1.40	1.40	1.40	1.46	1.44	1.50
Voice rev. per min (Rs)	0.74	0.71	0.69	0.65	0.59	0.57	0.58	0.57	0.53	0.51	0.46
Cost per min (Rs)	0.44	0.42	0.41	0.42	0.41	0.39	0.40	0.39	0.36	0.35	0.32
Spread per min (Rs)	0.30	0.29	0.28	0.23	0.18	0.17	0.18	0.18	0.18	0.16	0.14
EBITDA margin %	40.6%	41.0%	40.8%	35.5%	30.7%	30.2%	31.4%	31.5%	33.0%	31.9%	30.4%
ROE (LTM)	40.6%	41.7%	40.9%	39.3%	37.8%	35.9%	34.3%	32.6%	31.7%	30.3%	28.4%
ROCE (LTM)	29.3%	31.3%	32.7%	32.9%	33.8%	33.9%	32.5%	30.7%	28.7%	26.2%	24.2%

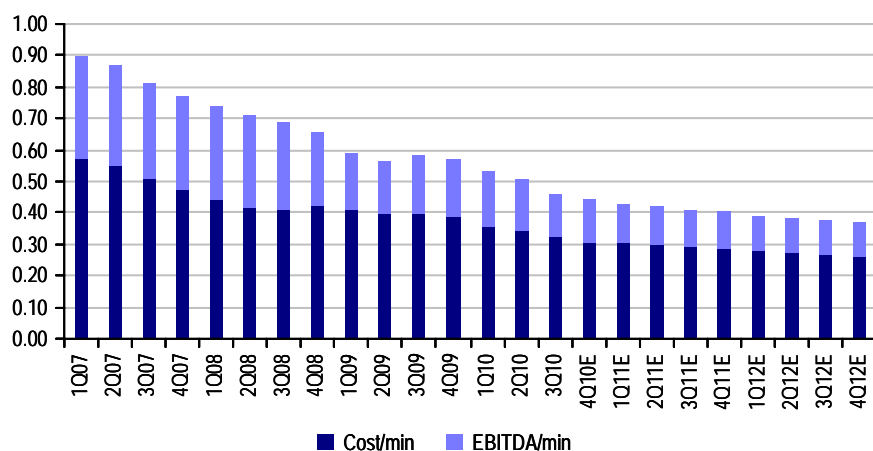
Source: Company data

Table 18: Bharti minutes based forward looking KPI

Parameter	Q4 FY10E	Q1 FY11E	Q2 FY11E	Q3 FY11E	Q4 FY11E	Q1 FY12E	Q2 FY12E	Q3 FY12E	Q4 FY12E
Mobile revenue (Rs m)	80,224	82,267	82,996	85,619	86,950	87,983	88,203	90,276	91,608
% non-voice revenue (%)	11.3%	11.5%	11.8%	11.9%	12.0%	12.2%	12.4%	12.4%	12.4%
Voice revenue (Rs m)	71,150	72,844	73,175	75,467	76,507	77,273	77,248	79,101	80,235
Mobile minutes carried (m)	161,705	169,405	174,227	184,067	191,267	198,136	203,284	210,936	216,850
Voice rev. per min (Rs)	0.44	0.43	0.42	0.41	0.40	0.39	0.38	0.38	0.37
Cost/min (Rs) (RHS)	0.31	0.30	0.30	0.29	0.28	0.28	0.27	0.27	0.26
Spread per min (Rs)	0.13	0.13	0.12	0.12	0.12	0.11	0.11	0.11	0.11
EBITDA margin %	30.0%	29.2%	29.1%	29.1%	29.1%	28.2%	28.1%	29.1%	30.1%

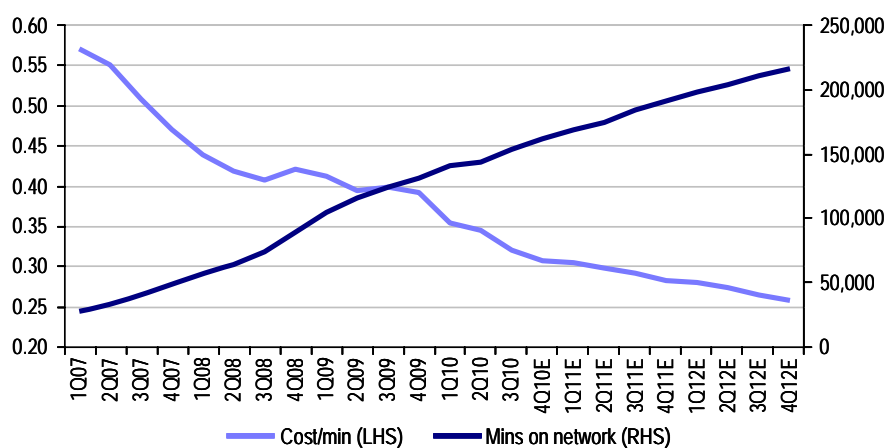
Source: UBS estimates

Chart 3: Revenue per minute breakdown of cost/min and EBITDA/min



Source: Company data, UBS estimates

Chart 4: Minutes on the network vs cost per minute



Source: Company data, UBS estimates

Table 19: Sensitivity to rev/min

Change in rev/min	Impact on price target	Impact on FY12 EPS
+10.0%	11.1%	6.7%
+5.0%	5.6%	3.3%
-5.0%	-5.6%	-3.5%
-10.0%	-11.1%	-6.9%

Source: UBS estimates

Table 20: Bharti Q4 FY10 results preview

(Rs m)	Q108A	Q208A	Q308A	Q408A	Q109A	Q209A	Q309A	Q409A	Q110A	Q210A	Q310A	Q410E	% QoQ	% YoY
Consolidated														
Revenue	59,046	63,374	69,639	78,191	84,833	90,203	96,334	98,245	99,416	98,455	97,722	99,206	1.5%	1.0%
EBITDA	24,466	27,097	29,634	32,518	35,221	36,993	39,450	40,014	41,518	41,416	39,112	38,627	-1.2%	-3.5%
% margin	41.4%	42.8%	42.6%	41.6%	41.5%	41.0%	41.0%	40.7%	41.8%	42.1%	40.0%	38.9%		
Net income	15,116	16,139	17,224	18,529	20,250	20,463	21,593	22,393	25,167	23,210	22,098	19,404	-12.2%	-13.3%
% margin	25.6%	25.5%	24.7%	23.7%	23.9%	22.7%	22.4%	22.8%	25.3%	23.6%	22.6%	19.6%		
Mobile														
Revenue	46,976	50,579	56,105	64,201	69,150	72,843	79,392	82,216	82,285	80,994	79,618	80,224	0.8%	-2.4%
EBITDA	19,087	20,728	22,887	22,779	21,218	22,009	24,963	25,860	27,183	25,860	24,178	24,072	-0.4%	-6.9%
% margin	40.6%	41.0%	40.8%	35.5%	30.7%	30.2%	31.4%	31.5%	33.0%	31.9%	30.4%	30.0%		
Broadband & telephone														
Revenues	6,513	7,023	7,307	7,641	7,988	8,486	8,458	8,585	8,550	8,544	8,550	8,581	0.4%	0.0%
EBITDA	2,100	2,790	3,173	3,344	3,367	3,696	3,531	3,614	3,463	3,667	3,944	3,776	-4.3%	4.5%
% margin	32.2%	39.7%	43.4%	43.8%	42.2%	43.6%	41.7%	42.1%	40.5%	42.9%	46.1%	44.0%		
Enterprise services														
Revenue	11,940	13,471	14,636	16,340	19,572	21,874	21,808	21,628	21,333	21,331	20,546	20,957	2.0%	-3.1%
EBITDA	4,328	4,897	5,029	6,179	8,655	9,369	9,799	9,920	10,468	11,023	10,035	9,850	-1.8%	-0.7%
% margin	36.2%	36.4%	34.4%	37.8%	44.2%	42.8%	44.9%	45.9%	49.1%	51.7%	48.8%	47.0%		
Passive infrastructure														
Revenue	-	-	-	6,023	10,563	11,983	12,702	7,241	8,020	8,586	9,267	10,067	8.6%	39.0%
EBITDA	-	-	-	2,236	3,870	3,991	4,258	2,903	3,557	4,020	4,269	4,532	6.2%	56.1%
% margin	-	-	-	37.1%	36.6%	33.3%	33.5%	40.1%	44.4%	46.8%	46.1%	45.0%		
Operating statistics														
Bharti-Wireless subs	42.70	48.88	55.16	61.99	69.38	77.5	85.7	93.9	102.4	110.5	118.9	126.1	6.1%	34.3%
Implied ARPU	392	368	360	365	351	331	324	305	279	254	231	218	-5.7%	-28.5%
% non voice	9.9%	9.8%	9.3%	9.4%	9.7%	10.0%	9.5%	9.3%	9.3%	9.8%	11.0%	11.3%		
Voice ARPU	353	332	326	331	317	298	294	277	253	229	206	194	-6.0%	-30.1%
Average MOU	478	469	474	507	534	526	505	485	478	450	446	440	-1.3%	-9.3%
Voice revenue/minute	0.74	0.71	0.69	0.65	0.59	0.57	0.58	0.57	0.53	0.51	0.46	0.44	-4.7%	-22.9%
% change	-4.6%	-4.2%	-2.9%	-5.1%	-9.1%	-4.7%	2.8%	-1.8%	-7.1%	-4.1%	-9.2%	-4.7%		

Source: Company data, UBS estimates

Table 21: EPS accretion/dilution analysis for Bharti-Zain transaction

	FY1E	FY12E	FY13E
Bharti's existing net profit (Rs m)	80,410	82,551	101,521
Existing number of shares (m)	3,790	3,790	3,790
Bharti existing EPS (Rs)	21.22	21.78	26.79
Zain net profit adjusted for March year end (US\$ m)	254	308	328
Zain net profit adjusted for March year-end (Rs m)	11,765	14,258	15,181
Bharti's share of Zain net profit, (Rs m) (assuming 20% minority share)	9,412	11,406	12,145
Debt raised (Rs m)	495,678	495,678	495,678
Cost of debt (%)	6.0%	6.0%	6.0%
Interest expense (Rs m)	29,741	29,741	29,741
Effective tax rate (%)	16.0%	18.0%	20.0%
Post tax interest expense (Rs m)	24,982	24,387	23,793
EPS accretion/dilution assuming cost savings			
Cost savings from deal (assuming 5% for FY11E and 10% for FY12E)	5,643	12,390	13,129
Bharti's net profit post Zain deal (Rs m)	70,482	81,961	103,003
New number of shares (m)	3,790	3,790	3,790
Bharti EPS post Zain deal (Rs)	18.60	21.63	27.18
EPS accretion/dilution (%)	-12.3%	-0.7%	1.5%

Source: UBS estimates

We assume the following in our analysis:

- Net cash payment of US\$9.0bn, as we expect Bharti to assume Zain Africa BV's debt of around US\$1.7bn.
- Bharti funds the transaction 100% through US dollar-denominated debt (US\$9.0bn) and the cost of debt is 6.0%.
- Exchange rate of US\$/Rs: 46.325(as at 15 February 2010).
- 5% cost savings in FY11 and 10% in FY12 and FY13 for Zain due to its acquisition by Bharti.

Based on the above assumptions, the acquisition would be 12.3% and 0.7% EPS-dilutive in FY11 and FY12, respectively (refer to Table 21). We expect the transaction to become EPS-accretive beginning FY13.

Table 22: Bharti DCF valuation

YE 31 March (Rs m)	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
EBIT	83,975	84,641	108,605	132,727	155,045	179,442	201,025	225,208	242,123
Cash tax rate	16.0%	18.0%	20.0%	22.0%	24.0%	26.0%	28.0%	29.0%	30.0%
EBIT*(1-t)	70,539	69,406	86,884	103,527	117,834	132,787	144,738	159,897	169,486
D&A	58,124	65,975	73,533	78,312	83,616	86,868	86,769	80,979	78,291
Capex	(78,077)	(77,704)	(74,827)	(76,900)	(79,003)	(75,985)	(75,677)	(78,787)	(81,612)
Change in WC	4,579	3,606	4,344	3,277	4,468	2,819	3,466	4,494	2,014
FCFF	55,165	61,284	89,934	108,216	126,916	146,489	159,296	166,583	168,179
FCFF - Discounted	53,684	53,485	70,390	75,960	79,894	82,701	80,652	75,639	68,485
Value of cash-flows 2011-19E	640,889		Rf		7.3%				
Terminal value - 2% growth	738,526		Rm -Rf		5.0%				
			Beta		1.00				
Enterprise value	1,379,415		Ce		12.3%				
(Net debt)	19,487		Post tax Cd		7.0%				
Equity value	1,398,903		Leverage		15.0%				
Value per share	369		WACC		11.5%				

Source: UBS estimates

Table 23: Bharti SoTP valuation

Rs m	Enterprise value	Net (debt)/cash	Equity value	Bharti's stake	Value per share (Rs)	WACC	Terminal growth (%)
Bharti Airtel	1,379,415	19,487	1,398,903	100.0%	369	11.5%	2.0%
Bharti Infratel (excl Indus)	151,652	-	151,652	89.3%	36	11.6%	2.0%
Indus	498,061	(46,124)	451,937	37.5%	45	10.8%	2.0%
Zain acquisition					(30)		
Sum of the parts					420		

Source: UBS estimates

Table 24: Bharti ex-towers valuation

(in Rs m)	Mar'10E	Mar'11E	Mar'12E
Market Cap	1,187,076	1,187,076	1,187,076
Net debt	2,465	-19,448	-30,876
Enterprise value - Incl. Bharti Infratel	1,189,541	1,167,628	1,156,200
Bharti Infratel & Indus EV at UBS-e valuation			
EV - Bharti share of Bharti Infratel & Indus (US\$ m)	7,246	7,246	7,246
EV - Bharti share of Bharti Infratel & Indus (Rs m)	322,177	322,177	322,177
EV - Bharti excl. Infratel (Rs m)	867,364	845,452	834,023
P/E	12.0	13.9	14.3
EV/EBITDA	6.6	6.9	6.6

Note: Above data as at 8 April 2010. Source: UBS estimates

Bharti Airtel Ltd.

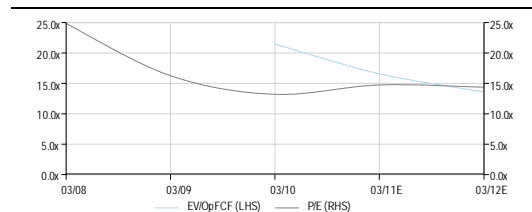
Income statement (Rsm)	03/05	03/06	03/07	03/08	03/09	03/10E	% ch	03/11E	% ch	03/12E	% ch
Revenues	80,028	116,633	185,196	270,250	369,615	394,799	6.8	417,625	5.8	449,218	7.6
Operating expenses (ex deprn)	-	-	-	-	-	-	-	-	-	-	-
EBITDA (UBS)	29,531	43,571	74,509	113,715	151,678	160,673	5.9	155,539	-3.2	166,170	6.8
Depreciation	(11,341)	(15,829)	(25,209)	(37,261)	(47,581)	(60,200)	26.5	(64,464)	7.1	(73,167)	13.5
Operating income (EBIT, UBS)	18,190	27,742	49,300	76,455	104,097	100,473	-3.5	91,075	-9.4	93,002	2.1
Other income & associates	410	484	1,011	2,422	1,302	1,381	6.0	3,286	138.1	4,517	37.4
Net interest	(1,996)	(2,651)	(1,439)	(2,341)	(11,613)	3,350	-	1,364	-59.3	3,320	143.4
Abnormal items (pre-tax)	0	0	0	0	0	0	-	0	-	0	-
Profit before tax	16,604	25,575	48,872	76,536	93,786	105,203	12.2	95,725	-9.0	100,840	5.3
Tax	(1,528)	(2,736)	(5,822)	(8,378)	(6,615)	(13,472)	103.7	(13,402)	-0.5	(16,134)	20.4
Profit after tax	15,076	22,839	43,050	68,158	87,171	91,731	5.2	82,324	-10.3	84,705	2.9
Abnormal items (post-tax)	0	0	0	0	0	0	-	0	-	0	-
Minorities / pref dividends	(98)	(254)	(467)	(1,150)	(1,759)	(1,852)	5.3	(1,914)	3.3	(2,154)	12.5
Net income (local GAAP)	14,978	22,585	42,583	67,008	85,412	89,879	5.2	80,410	-10.5	82,551	2.7
Net Income (UBS)	14,978	22,585	42,583	67,008	85,412	89,879	5.2	80,410	-10.5	82,551	2.7
Tax rate (%)	9	11	12	11	7	13	81.6	14	9.3	16	14.3
Pre-abnormal tax rate (%)	9	11	12	11	7	13	82.5	14	11.4	17	15.4
Per share (Rs)	03/05	03/06	03/07	03/08	03/09	03/10E	% ch	03/11E	% ch	03/12E	% ch
EPS (local GAAP)	4.04	5.96	11.23	17.68	22.54	23.71	5.2	21.22	-10.5	21.78	2.7
EPS (UBS)	4.04	5.96	11.23	17.68	22.54	23.71	5.2	21.22	-10.5	21.78	2.7
Net DPS	0.00	0.00	0.00	0.00	2.00	2.37	18.6	6.36	168.4	13.07	105.3
Cash EPS	7.10	10.14	17.88	27.51	35.09	39.60	12.8	38.23	-3.5	41.09	7.5
BVPS	15.96	24.56	36.12	58.64	80.08	101.55	26.8	116.40	14.6	125.11	7.5
Balance sheet (Rsm)	03/05	03/06	03/07	03/08	03/09	03/10E	% ch	03/11E	% ch	03/12E	% ch
Net tangible fixed assets	92,597	142,411	210,604	313,408	409,134	354,700	-13.3	380,611	7.3	397,886	4.5
Net intangible fixed assets	39,211	38,560	37,800	40,247	40,364	40,364	0.0	40,364	0.0	40,364	0.0
Net working capital (incl. other assets)	(19,184)	(34,598)	(55,914)	(70,769)	(47,128)	(59,091)	25.4	(63,575)	7.6	(67,085)	5.5
Other liabilities	(10,520)	(11,210)	(12,349)	(15,195)	(18,120)	(19,370)	6.9	(18,140)	-6.3	(17,071)	-5.9
Operating invested capital	102,105	135,163	180,141	267,691	384,250	316,603	-17.6	339,260	7.2	354,094	4.4
Investments	671	190	182	108	128	79,128	61718.8	79,128	0.0	79,128	0.0
Total capital employed	102,775	135,353	180,323	267,799	384,378	395,731	3.0	418,388	5.7	433,222	3.5
Shareholders' equity	59,160	92,177	135,529	222,586	303,943	384,875	26.6	441,162	14.6	474,182	7.5
Minority interests	749	957	1,801	3,013	10,704	12,556	17.3	14,470	15.2	16,624	14.9
Total equity	59,910	93,134	137,330	225,599	314,647	397,431	26.3	455,632	14.6	490,806	7.7
Net debt / (cash)	42,865	42,219	42,993	42,200	69,731	(1,700)	-	(37,244)	2090.9	(57,584)	54.6
Debt deemed provisions	0	0	0	0	0	0	-	0	-	0	-
Total capital employed	102,775	135,353	180,323	267,799	384,378	395,731	3.0	418,388	5.7	433,222	3.5
Cash flow (Rsm)	03/05	03/06	03/07	03/08	03/09	03/10E	% ch	03/11E	% ch	03/12E	% ch
Operating income (EBIT, UBS)	18,190	27,742	49,300	76,455	104,097	100,473	-3.5	91,075	-9.4	93,002	2.1
Depreciation	11,341	15,829	25,209	37,261	47,581	60,200	26.5	64,464	7.1	73,167	13.5
Net change in working capital	1,029	19,184	22,487	(30,550)	(8,339)	(22,162)	165.8	4,579	-	3,606	-21.3
Other (operating)	5,235	(3,149)	(3,145)	42,855	(2,227)	1,923	-	(1,325)	-	(1,165)	-12.1
Operating cash flow	35,795	59,606	93,851	126,020	141,112	140,434	-0.5	158,793	13.1	168,611	6.2
Net interest received / (paid)	(1,996)	(2,651)	(1,439)	(2,341)	(11,613)	3,350	-	1,364	-59.3	3,320	143.4
Dividends paid	0	0	0	0	(7,580)	(8,988)	18.6	(24,123)	168.4	(49,531)	105.3
Tax paid	(1,528)	(2,736)	(5,822)	(8,378)	(6,615)	(13,472)	103.7	(13,402)	-0.5	(16,134)	20.4
Capital expenditure	(26,451)	(63,337)	(89,271)	(121,259)	(140,171)	(84,759)	-39.5	(90,374)	6.6	(90,443)	0.1
Net (acquisitions) / disposals	0	0	0	0	0	0	-	0	-	0	-
Other	(3,763)	837	(343)	74	7,691	1,852	-75.9	1,914	3.3	2,154	12.5
Share issues	103	8,445	1,647	21,237	0	39	-	0	-	0	-
Cash flow (inc)/dec in net debt	2,471	394	(833)	16,625	(17,633)	37,434	-	33,283	-11.1	17,022	-48.9
FX / non cash items	(917)	252	59	(15,832)	(9,898)	33,997	-	2,261	-93.3	3,317	46.7
Balance sheet (inc)/dec in net debt	1,554	646	(774)	793	(27,531)	71,431	-	35,544	-50.2	20,340	-42.8
Core EBITDA	29,531	43,571	74,509	113,715	151,678	160,673	5.9	155,539	-3.2	166,170	6.8
Maintenance capital expenditure	(26,451)	(63,337)	(89,271)	(121,259)	(140,171)	(84,759)	-39.5	(90,374)	6.6	(90,443)	0.1
Maintenance net working capital	1,028	19,183	22,486	(30,549)	(8,338)	(22,161)	165.8	4,578	-	3,605	-21.3
Operating free cash flow, pre-tax	4,108	(583)	7,724	(38,093)	3,169	53,752	1596.2	69,743	29.7	79,332	13.7

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

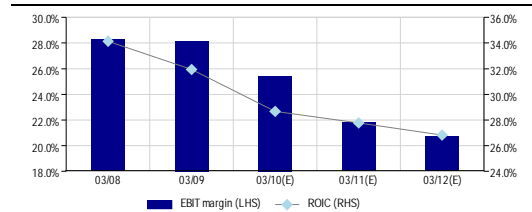
Company profile

Bharti Airtel is one of India's leading telcos. The company's revenue market share is around 25%. The mobile services group provides GSM mobile services in 23 telecom circles in India. The broadband & telephone business group provides broadband and telephone services in 100 cities. The enterprise services group has two sub-units: carriers (long-distance services) and corporate services. All these services are provided under the Airtel brand. Singapore Telecom owns 31% of Bharti Airtel.

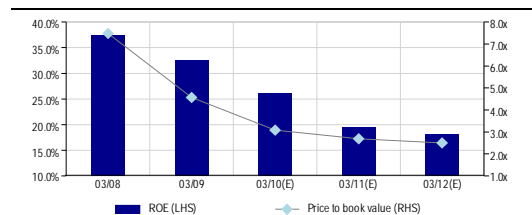
Value (EV/OpFCF & P/E)



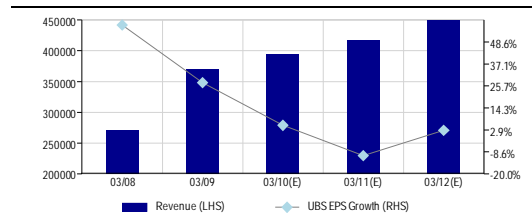
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
P/E (local GAAP)	24.8	24.8	16.2	13.2	14.7	14.4
P/E (UBS)	24.8	24.8	16.2	13.2	14.7	14.4
P/CEPS	13.9	15.9	10.4	7.9	8.2	7.6
Net dividend yield (%)	0.0	0.0	0.5	0.8	2.0	4.2
P/BV	5.9	7.5	4.6	3.1	2.7	2.5
EV/revenue (core)	5.6	6.3	3.9	2.9	2.8	2.4
EV/EBITDA (core)	14.1	15.0	9.6	7.2	7.4	6.5
EV/EBIT (core)	21.7	22.3	13.9	11.5	12.7	11.6
EV/OpFCF (core)	NM	NM	NM	21.5	16.6	13.6
EV/op. invested capital	5.7	7.6	4.4	3.3	3.5	3.1

Enterprise value (Rsm)	03/08	03/09	03/10E	03/11E	03/12E
Average market cap	1,662,667	1,387,684	1,187,076	1,187,076	1,187,076
+ minority interests	2,407	6,859	11,630	13,513	15,547
+ average net debt (cash)	42,597	55,966	34,016	34,016	(47,414)
+ pension obligations and other	0	0	0	0	0
- non-core asset value	(108)	(128)	(79,128)	(79,128)	(79,128)
Core enterprise value	1,707,562	1,450,380	1,153,594	1,155,477	1,076,081

Growth (%)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
Revenue	53.8	45.9	36.8	6.8	5.8	7.6
EBITDA (UBS)	63.6	52.6	33.4	5.9	-3.2	6.8
EBIT (UBS)	75.0	55.1	36.2	-3.5	-9.4	2.1
EPS (UBS)	89.6	57.4	27.5	5.2	-10.5	2.7
Cash EPS	68.0	53.9	27.5	12.8	-3.5	7.5
Net DPS	-	-	-	18.6	168.4	105.3
BVPS	47.1	62.4	36.6	26.8	14.6	7.5

Margins (%)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
EBITDA / revenue	37.9	42.1	41.0	40.7	37.2	37.0
EBIT / revenue	23.7	28.3	28.2	25.4	21.8	20.7
Net profit (UBS) / revenue	19.3	24.8	23.1	22.8	19.3	18.4

Return on capital (%)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
EBIT ROIC (UBS)	26.4	34.1	31.9	28.7	27.8	26.8
ROIC post tax	-	30.4	29.7	25.0	23.8	22.4
Net ROE	28.8	37.4	32.4	26.1	19.5	18.0

Coverage ratios (x)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
EBIT / net interest	18.4	NM	9.1	-	-	-
Dividend cover (UBS EPS)	-	-	11.3	10.0	3.3	1.7
Div. payout ratio (% UBS EPS)	-	-	8.9	10.0	30.0	60.0
Net debt / EBITDA	0.8	0.4	0.5	NM	NM	NM

Efficiency ratios (x)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
Revenue / op. invested capital	1.0	1.2	1.1	1.1	1.3	1.3
Revenue / fixed assets	0.8	0.9	0.9	0.9	1.0	1.0
Revenue / net working capital	NM	NM	NM	NM	NM	NM

Investment ratios (x)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
OpFCF / EBIT	NM	NM	0.0	0.5	0.8	0.9
Capex / revenue (%)	NM	NM	NM	21.5	21.6	20.1
Capex / depreciation	3.3	3.3	2.9	1.4	1.4	1.2

Capital structure (%)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
Net debt / total equity	38.6	19.0	22.9	(0.4)	(8.4)	(12.1)
Net debt / (net debt + equity)	27.9	15.9	18.7	(0.4)	(9.2)	(13.8)
Net debt (core) / EV	5.4	2.5	3.9	2.9	2.9	(4.4)

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptional and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs312.80 on 08 Apr 2010 23:39 HKT Market cap(E) may include forecast share issues/buybacks.

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UBS Investment Research

Idea Cellular

Pure-play India mobile exposure

■ Pricing unlikely to deteriorate further

Idea's voice rev/min has declined 20% in the past year (from Rs0.59/min in Q3 FY09 to Rs0.47/min in Q3 FY10). We believe further tariff pressure is likely to be limited from current levels, as new operators are unlikely to compete on pricing, given their high cost structure and limited spectrum. We believe the cost/min for new operators is high at Rs0.74/min compared with Idea's Rs0.36/min.

■ Mobile sector consolidation likely

We believe the current level of competitive intensity is unsustainable in the mobile market and consolidation is likely over the next two to three years. We expect Idea to benefit as pricing power is likely to return after consolidation.

■ Management focus on 900 MHz circles is sensible, in our view

We believe management's focus on gaining significant share in 900 MHz service areas while investing opportunistically in 1800 MHz service areas is sensible. The company is one of the top two operators in revenue share in seven of the nine service areas where it has 900 MHz spectrum. We believe Idea's high quality spectrum will enable value creation for shareholders in the long term.

■ Valuation: maintain Buy rating and SOTP-based price target of Rs80.00

3G auction-related newsflow could lead to weakness in the share price, which we would view as an attractive buying opportunity. We think Idea provides pure-play exposure to India's medium- and long-term mobile growth story post consolidation. We see upside risks to our valuation and estimates if rev/min does not decline significantly from current levels.

Highlights (Rsm)	03/08	03/09	03/10E	03/11E	03/12E
Revenues	67,375	101,544	124,577	154,004	166,718
EBIT (UBS)	13,925	14,337	13,374	15,445	16,898
Net Income (UBS)	10,424	8,816	8,331	6,538	7,540
EPS (UBS, Rs)	3.96	2.95	2.65	1.98	2.29
Net DPS (UBS, Rs)	0.00	0.00	0.00	0.00	0.23
Profitability & Valuation	5-yr hist av.	03/09	03/10E	03/11E	03/12E
EBIT margin %	16.0	14.1	10.7	10.0	10.1
ROIC (EBIT) %	14.3	11.0	6.7	6.5	6.8
EV/EBITDA (core) x	-	8.5	8.1	7.3	6.6
PE (UBS) x	-	24.3	25.7	34.3	29.7
Net dividend yield %	-	0.0	0.0	0.0	0.3

Source: Company accounts, Thomson Reuters, UBS estimates. (UBS) valuations are stated before goodwill, exceptional and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs67.95 on 08 Apr 2010 23:39 HKT

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Global Equity Research

India

Wireless Communications

12-month rating **Buy**
Unchanged

12m price target **Rs80.00/US\$1.80**
Unchanged

Price **Rs67.95/US\$1.53**

RIC: IDEA.BO BBG: IDEA IB

Trading data (local/US\$)

52-wk range	Rs87.10-48.95/US\$1.83-1.05
Market cap.	Rs211bn/US\$4.74bn
Shares o/s	3,100m (ORD)
Free float	12%
Avg. daily volume ('000)	1,271
Avg. daily value (Rsm)	80.4

Balance sheet data 03/10E

Shareholders' equity	Rs172bn
P/BV (UBS)	1.3x
Net Cash (debt)	(Rs79.4bn)

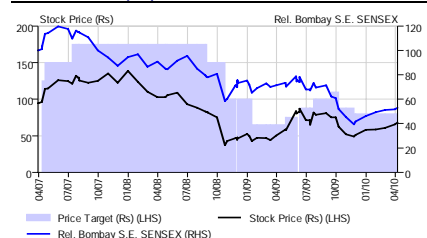
Forecast returns

Forecast price appreciation	+17.7%
Forecast dividend yield	0.0%
Forecast stock return	+17.7%
Market return assumption	12.8%
Forecast excess return	+4.9%

EPS (UBS, Rs)

	03/10E		03/09
	UBS	Cons.	Actual
Q1	0.96	-	1.00
Q2	0.71	-	0.46
Q3	0.55	-	0.71
Q4E	0.44	-	0.88
03/10E	2.65	2.73	
03/11E	1.98	1.80	

Performance (Rs)



Source: UBS

www.ubs.com/investmentresearch

Table 25: Key assumptions for Idea standalone

YE 31 March (Rs m)	2009A	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E
Total mobile subscribers (m)	386	538	666	770	859	937	1,006	1,065	1,113	1,150
Idea mobile subscribers (m)	39	57	72	83	93	101	108	115	120	124
Subscriber market share	10.1%	10.5%	10.7%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%
Incremental subscriber market share	11.5%	11.6%	11.6%	11.3%	10.9%	10.6%	10.6%	10.8%	10.9%	11.1%
Idea mobile revenue (Rs m)	99,622	119,804	139,977	152,777	181,539	205,578	228,160	246,484	262,423	275,606
Blended ARPU (Rs/sub/month)	264	209	182	164	172	176	181	184	186	188
% change		-20.7%	-12.9%	-9.6%	4.4%	2.8%	2.8%	1.4%	1.2%	1.0%
Voice ARPU (Rs/sub/month)	239	186	160	143	150	155	159	162	164	165
Blended MOU (min/sub/month)	417	385	375	371	374	378	382	384	385	385
Minutes generated on the network (m)	153,880	218,567	289,804	345,124	395,922	440,646	480,625	514,395	542,398	564,007
% change		42.0%	32.6%	19.1%	14.7%	11.3%	9.1%	7.0%	5.4%	4.0%
Voice revenue per min. realisation	0.57	0.48	0.43	0.39	0.40	0.41	0.42	0.42	0.43	0.43
% change		-15.4%	-11.7%	-9.7%	4.0%	2.0%	2.0%	1.0%	1.0%	1.0%
Cost per min	0.41	0.36	0.34	0.30	0.31	0.31	0.31	0.31	0.31	0.31
EBITDA per min	0.16	0.12	0.09	0.08	0.09	0.10	0.10	0.11	0.11	0.12
EBITDA margin	27.6%	24.6%	21.4%	21.3%	22.3%	23.7%	25.0%	25.8%	26.5%	27.3%
Capex/sales	54.7%	33.4%	25.0%	21.0%	15.0%	14.0%	13.0%	12.0%	11.0%	10.0%

Source: Company data, UBS estimates

Table 26: Idea standalone minutes based KPI

	Q108	Q208	Q308	Q408	Q109	Q209	Q309	Q409	Q110	Q210	Q310
Mobile revenue (Rs m)	14,776	15,644	17,103	19,853	21,781	23,006	26,209	28,626	28,883	28,909	30,610
% non-voice revenue	8.4%	8.3%	8.0%	8.2%	8.9%	9.8%	9.5%	9.6%	10.1%	10.6%	11.2%
Voice revenue (Rs m)	13,535	14,345	15,735	18,225	19,842	20,751	23,719	25,878	25,966	25,845	27,182
Mobile minutes carried (m)	17,100	18,831	22,457	27,824	33,087	36,315	40,254	44,224	48,729	50,339	57,841
Network sites	n/a	n/a	n/a	n/a	27,594	33,377	39,289	44,230	48,067	50,915	55,804
Mobile minutes carried per site (m)	n/a	n/a	n/a	n/a	1.20	1.09	1.02	1.00	1.01	0.99	1.04
Voice rev. per min (Rs)	0.79	0.76	0.70	0.65	0.60	0.57	0.59	0.59	0.53	0.51	0.47
Cost per min (Rs)	0.52	0.51	0.47	0.43	0.40	0.42	0.44	0.43	0.39	0.38	0.36
Spread per min (Rs)	0.27	0.25	0.23	0.22	0.20	0.15	0.15	0.15	0.14	0.13	0.11
EBITDA margin (%)	34.7%	32.8%	33.3%	33.9%	33.1%	26.4%	26.0%	25.9%	26.7%	25.3%	23.5%
ROE (LTM)	n/a	n/a	21.5%	21.4%	20.2%	14.5%	11.4%	9.7%	8.5%	8.1%	7.8%
ROCE (LTM)	n/a	n/a	15.9%	15.7%	14.5%	12.6%	11.0%	9.5%	8.2%	7.7%	7.3%

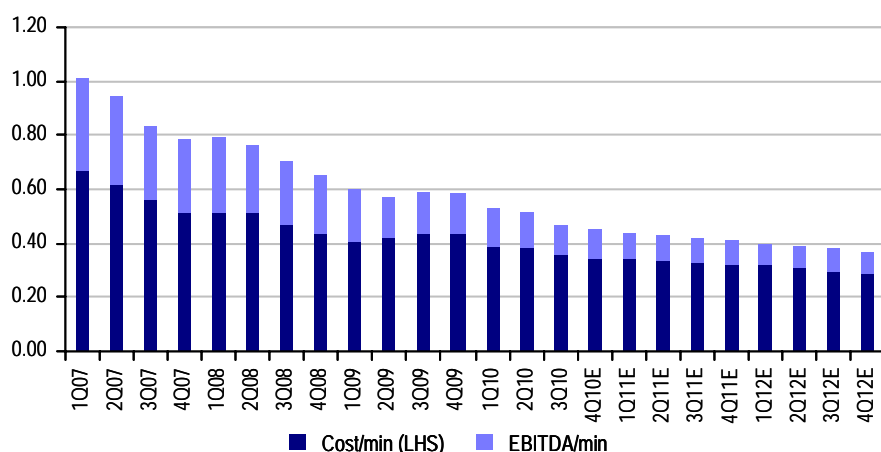
Source: Company data

Table 27: Idea standalone minutes based forward looking quarterly KPI

Parameter	Q4 FY10E	Q1 FY11E	Q2 FY11E	Q3 FY11E	Q4 FY11E	Q1 FY12E	Q2 FY12E	Q3 FY12E	Q4 FY12E
Mobile revenue (Rs m)	31,402	33,177	34,430	35,678	36,693	37,542	37,911	38,456	38,869
% non-voice revenue (%)	11.6%	11.8%	12.1%	12.3%	12.5%	12.7%	13.0%	13.3%	13.5%
Voice revenue (Rs m)	27,746	29,272	30,276	31,303	32,118	32,780	32,973	33,355	33,615
Mobile minutes carried (m)	61,658	66,527	70,410	74,531	78,336	81,950	84,546	87,776	90,853
Voice rev. per min (Rs)	0.45	0.44	0.43	0.42	0.41	0.40	0.39	0.38	0.37
Cost/min (Rs)	0.35	0.35	0.34	0.33	0.32	0.32	0.31	0.30	0.29
Spread per min (Rs)	0.10	0.09	0.09	0.09	0.09	0.08	0.08	0.08	0.08
EBITDA margin %	23.3%	21.5%	21.4%	21.4%	21.4%	21.0%	20.9%	21.3%	21.8%

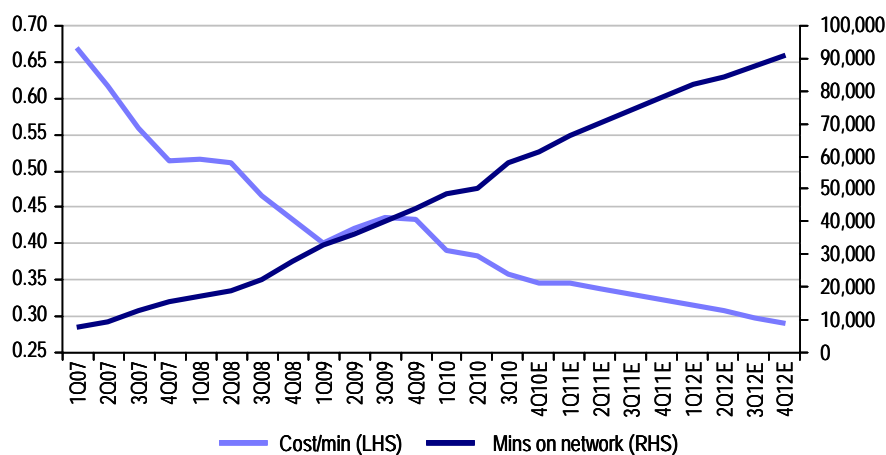
Source: UBS estimates

Chart 5: Idea standalone: rev/min breakdown of cost/min and EBITDA/min



Source: Company data, UBS estimates

Chart 6: Idea standalone: minutes on the network vs cost per minute



Source: Company data, UBS estimates

Table 28: Idea consolidated Q4 FY10 results preview

(Rs m)	Q108A	Q208A	Q308A	Q408A	Q109A	Q209A	Q309A	Q409A	Q110A	Q210A	Q310A	Q410E	% QoQ	% YoY
Revenue	14,773	15,644	17,103	19,853	21,781	23,034	27,311	29,365	29,759	29,739	31,495	33,585	6.6%	14.4%
% growth	10.2%	5.9%	9.3%	16.1%	9.7%	5.8%	18.6%	7.5%	1.3%	-0.1%	5.9%	6.6%		
Opex	(9,645)	(10,515)	(11,408)	(13,118)	(14,578)	(16,965)	(20,336)	(21,257)	(21,160)	(21,644)	(23,353)	(24,598)	5.3%	15.7%
EBITDA	5,131	5,128	5,695	6,735	7,203	6,068	6,974	8,108	8,599	8,095	8,141	8,483	4.2%	4.6%
EBITDA margin	34.7%	32.8%	33.3%	33.9%	33.1%	26.3%	25.5%	27.6%	28.9%	27.2%	25.9%	25.3%		
Depreciation	(1,887)	(2,007)	(2,277)	(2,597)	(2,749)	(3,032)	(3,937)	(4,321)	(4,555)	(4,797)	(5,131)	(5,462)	6.5%	26.4%
EBIT	3,244	3,121	3,418	4,137	4,454	3,036	3,037	3,787	4,044	3,299	3,011	3,020	0.3%	-20.2%
EBIT margin (%)	22.0%	20.0%	20.0%	20.8%	20.5%	13.2%	11.1%	12.9%	13.6%	11.1%	9.6%	9.0%		
Finance expense	(143)	(641)	(782)	(1,206)	(1,526)	(1,497)	(874)	(1,047)	(869)	(740)	(938)	(1,226)	30.7%	17.1%
Income tax	(16)	(277)	(268)	(165)	(297)	(99)	31	2	(204)	(357)	(372)	(337)	-9.4%	n/m
Net profit	3,085	2,204	2,368	2,767	2,631	1,441	2,195	2,743	2,971	2,202	1,701	1,458	-14.3%	-46.9%
Net profit margin	20.9%	14.1%	13.8%	13.9%	12.1%	6.3%	8.0%	9.3%	10.0%	7.4%	5.4%	4.3%		

Note: We assume 100% of Spice was consolidated on 1 March 2010.

Source: Company data, UBS estimates

Table 29: Idea standalone Q4 FY10 results preview

(Rs m)	Q108A	Q208A	Q308A	Q408A	Q109A	Q209A	Q309A	Q409A	Q110A	Q210A	Q310A	Q410E	% QoQ	% YoY
Revenue	14,773	15,644	17,103	19,853	21,781	23,006	26,209	28,626	28,883	28,909	30,610	31,402	2.6%	9.7%
% growth	10.2%	5.9%	9.3%	16.1%	9.7%	5.6%	13.9%	9.2%	0.9%	0.1%	5.9%	2.6%		
EBITDA	5,131	5,128	5,695	6,735	7,203	6,081	6,805	7,415	7,700	7,307	7,203	7,316	1.6%	-1.3%
EBITDA margin (%)	34.7%	32.8%	33.3%	33.9%	33.1%	26.4%	26.0%	25.9%	26.7%	25.3%	23.5%	23.3%		
EBIT	3,244	3,121	3,418	4,137	4,454	3,085	3,226	3,518	3,636	3,107	2,781	2,771	-0.4%	-21.2%
EBIT margin (%)	22.0%	20.0%	20.0%	20.8%	20.5%	13.4%	12.3%	12.3%	12.6%	10.7%	9.1%	8.8%		
Net profit	3,085	2,204	2,368	2,767	2,631	1,501	2,562	3,032	3,074	2,507	1,953	1,847	-5.4%	-39.1%
Net profit margin (%)	20.9%	14.1%	13.8%	13.9%	12.1%	6.5%	9.8%	10.6%	10.6%	8.7%	6.4%	5.9%		
Operating statistics														
Total mobile subs	16.1	18.7	21.1	24.0	27.2	30.4	34.2	38.9	42.8	46.8	52.3	56.6	8.3%	45.6%
Implied ARPU	327	299	287	292	283	266	270	261	236	215	206	192	-6.7%	-26.4%
% Non-voice	8.4%	8.3%	8.0%	8.2%	8.9%	9.8%	9.5%	9.6%	10.1%	10.6%	11.2%	11.6%		
Voice ARPU	299	274	264	268	258	240	245	236	212	192	183	170	-7.1%	-28.1%
Blended MOU	381	360	377	411	431	421	416	402	399	375	389	377	-3.0%	-6.1%
Voice revenue per min	0.79	0.76	0.70	0.65	0.60	0.57	0.59	0.59	0.53	0.51	0.47	0.45	-4.3%	-23.3%
% change	-7.8%	-3.0%	-8.2%	-6.8%	-8.2%	-4.8%	3.2%	-0.2%	-9.5%	-3.4%	-8.3%	-4.3%		

Source: Company data, UBS estimates

Table 30: Idea including Spice DCF valuation

YE 31 March (Rs m)	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
EBIT	13,292	14,016	22,027	28,228	33,580	38,400	42,263	44,010	
Cash tax rate	20.2%	18.9%	18.0%	20.2%	23.2%	25.2%	27.1%	30.0%	
EBIT*(1-t)	10,609	11,362	18,060	22,538	25,791	28,740	30,797	30,807	
D&A	18,802	21,242	22,498	24,625	27,788	29,695	32,096	36,036	
Capex	(36,397)	(33,477)	(28,604)	(30,155)	(31,044)	(31,040)	(30,388)	(29,125)	
Change in WC	6,715	2,468	6,803	5,571	6,529	5,575	5,421	5,298	
FCFF	(271)	1,595	18,757	22,579	29,063	32,971	37,927	43,015	44,305
FCFF – Discounted	(256)	1,341	14,047	15,062	17,270	17,452	17,882	18,066	16,575
Value of cash-flows 2011-19E	117,439		Rf		7.3%				
Terminal value - 2% growth	166,359		Rm -Rf		5.0%				
			Beta		1.25				
Enterprise value	283,797		Ce		13.6%				
(Net debt)	(75,286)		Post tax Cd		8.4%				
Equity value	208,512		Leverage		25.0%				
Value per share	63		WACC		12.3%				

Source: UBS estimates

Table 31: Idea SoTP valuation

Rs m	Enterprise value	Net (debt)/cash	Equity value	Bharti's stake	Value per share (Rs)	WACC	Terminal growth (%)
Idea including Spice	283,797	(75,286)	208,512	100.0%	63	12.3%	2.0%
Indus	63,288	(6,277)	57,011	13.4%	17	10.8%	2.0%
Sum of the Parts					80		

Source: UBS estimates

Table 32: Idea ex-towers valuation

Rs m	Mar'10E	Mar'11E	Mar'12E
Current market Cap	224,224	224,224	224,224
Net debt including Indus Towers	79,389	85,592	88,806
Enterprise value - Idea including Indus Towers	303,613	309,816	313,030
Enterprise value - Idea's share in Indus Towers at UBS-e	63,288	63,288	63,288
Enterprise value - Idea excluding Indus Towers	240,325	246,528	249,743
Idea net profit excluding Indus Towers	7,841	5,574	6,095
Idea EBITDA excluding Indus Towers	30,365	32,095	35,258
PE	20.5	28.9	26.4
EV/EBITDA	7.9	7.7	7.1

Note: Above data as at 8 April 2010.

Source: UBS estimates

Table 33: Sensitivity to rev/min

Change in rev/min	Impact on price target	Impact on FY12E EPS
10.0%	11.6%	37.3%
5.0%	5.8%	18.6%
-5.0%	-5.8%	-18.6%
-10.0%	-11.6%	-37.3%

Source: UBS estimates

Income statement (Rsm)	03/05	03/06	03/07	03/08	03/09	03/10E	% ch	03/11E	% ch	03/12E	% ch
Revenues	22,728	29,899	44,129	67,375	101,544	124,577	22.7	154,004	23.6	166,718	8.3
Operating expenses (ex deprecn)	-	-	-	-	-	-	-	-	-	-	-
EBITDA (UBS)	8,381	10,918	15,102	22,693	28,364	33,319	17.5	37,592	12.8	42,004	11.7
Depreciation	(4,427)	(5,495)	(6,718)	(8,768)	(14,028)	(19,944)	42.2	(22,148)	11.0	(25,105)	13.4
Operating income (EBIT, UBS)	3,954	5,423	8,384	13,925	14,337	13,374	-6.7	15,445	15.5	16,898	9.4
Other income & associates	0	0	0	0	0	0	-	0	-	0	-
Net interest	(3,189)	(3,225)	(3,291)	(2,776)	(4,945)	(3,773)	-23.7	(7,022)	86.1	(7,223)	2.9
Abnormal items (pre-tax)	(6)	0	0	0	0	0	-	0	-	0	-
Profit before tax	759	2,198	5,092	11,149	9,391	9,601	2.2	8,422	-12.3	9,675	14.9
Tax	0	(80)	(60)	(725)	(576)	(1,270)	120.7	(1,885)	48.4	(2,135)	13.3
Profit after tax	759	2,118	5,033	10,424	8,816	8,331	-5.5	6,538	-21.5	7,540	15.3
Abnormal items (post-tax)	0	0	0	0	0	0	-	0	-	0	-
Minorities / pref dividends	0	0	0	0	0	0	-	0	-	0	-
Net income (local GAAP)	759	2,118	5,033	10,424	8,816	8,331	-5.5	6,538	-21.5	7,540	15.3
Net Income (UBS)	765	2,118	5,033	10,424	8,816	8,331	-5.5	6,538	-21.5	7,540	15.3
Tax rate (%)	0	4	1	7	6	13	115.8	22	69.2	22	-1.4
Pre-abnormal tax rate (%)	0	4	1	7	6	13	115.8	22	69.2	22	-1.4
Per share (Rs)	03/05	03/06	03/07	03/08	03/09	03/10E	% ch	03/11E	% ch	03/12E	% ch
EPS (local GAAP)	0.34	0.94	1.94	3.96	2.95	2.65	-10.5	1.98	-25.1	2.29	15.3
EPS (UBS)	0.34	0.94	1.94	3.96	2.95	2.65	-10.5	1.98	-25.1	2.29	15.3
Net DPS	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.23	-
Cash EPS	2.30	3.37	4.52	7.28	7.66	8.98	17.3	8.69	-3.1	9.89	13.8
BVPS	1.68	2.45	8.85	11.60	42.78	52.20	22.0	54.18	3.8	56.24	3.8
Balance sheet (Rsm)	03/05	03/06	03/07	03/08	03/09	03/10E	% ch	03/11E	% ch	03/12E	% ch
Net tangible fixed assets	35,975	38,769	62,248	106,085	166,672	198,992	19.4	218,519	9.8	231,085	5.8
Net intangible fixed assets	11,605	11,605	61	0	22,457	53,015	136.1	53,015	0.0	53,015	0.0
Net working capital (incl. other assets)	(3,222)	(7,819)	(15,070)	(15,485)	(17,540)	(19,157)	9.2	(25,943)	35.4	(28,502)	9.9
Other liabilities	0	0	0	0	(1,130)	(1,689)	49.5	(1,689)	0.0	(1,689)	0.0
Operating invested capital	44,357	42,554	47,239	90,600	170,460	231,161	35.6	243,902	5.5	253,909	4.1
Investments	0	0	12	139	20,452	20,452	0.0	20,452	0.0	20,452	0.0
Total capital employed	44,357	42,554	47,251	90,739	190,912	251,613	31.8	264,354	5.1	274,361	3.8
Shareholders' equity	4,360	6,361	22,945	30,562	132,634	172,224	29.8	178,762	3.8	185,555	3.8
Minority interests	0	0	0	0	0	0	-	0	-	0	-
Total equity	4,360	6,361	22,945	30,562	132,634	172,224	29.8	178,762	3.8	185,555	3.8
Net debt / (cash)	39,997	36,193	24,306	60,177	58,278	79,389	36.2	85,592	7.8	88,806	3.8
Debt deemed provisions	0	0	0	0	0	0	-	0	-	0	-
Total capital employed	44,357	42,554	47,251	90,739	190,912	251,613	31.8	264,354	5.1	274,361	3.8
Cash flow (Rsm)	03/05	03/06	03/07	03/08	03/09	03/10E	% ch	03/11E	% ch	03/12E	% ch
Operating income (EBIT, UBS)	3,954	5,423	8,384	13,925	14,337	13,374	-6.7	15,445	15.5	16,898	9.4
Depreciation	4,427	5,495	6,718	8,768	14,028	19,944	42.2	22,148	11.0	25,105	13.4
Net change in working capital	711	4,597	7,251	1,077	(4,133)	2,176	-	6,786	211.9	2,559	-62.3
Other (operating)	1,856	567	3,291	3,742	3,931	3,773	-4.0	7,022	86.1	7,223	2.9
Operating cash flow	10,947	16,082	25,644	27,512	28,163	39,268	39.4	51,401	30.9	51,786	0.7
Net interest received / (paid)	(3,189)	(3,225)	(3,291)	(2,776)	(7,633)	(3,773)	-50.6	(7,022)	86.1	(7,223)	2.9
Dividends paid	0	0	0	0	0	0	-	0	-	(747)	-
Tax paid	0	(80)	(60)	(725)	(576)	(1,270)	120.7	(1,885)	48.4	(2,135)	13.3
Capital expenditure	(5,327)	(5,258)	(17,167)	(49,677)	(62,053)	(42,121)	-32.1	(41,675)	-1.1	(37,671)	-9.6
Net (acquisitions) / disposals	0	0	0	0	0	0	-	0	-	0	-
Other	(2,701)	(340)	(12)	(6,082)	(45,815)	(44,474)	-2.9	(7,022)	-84.2	(7,223)	2.9
Share issues	0	0	22,706	3,225	72,704	31,259	-57.0	0	-	0	-
Cash flow (inc)/dec in net debt	(270)	7,179	27,820	(28,523)	(12,522)	(21,111)	68.6	(6,203)	-70.6	(3,215)	-48.2
FX / non cash items	(12,144)	(3,375)	(15,932)	(7,349)	14,421	0	-100.0	0	-	0	-93.7
Balance sheet (inc)/dec in net debt	(12,414)	3,804	11,888	(35,871)	1,899	(21,111)	-	(6,203)	-70.6	(3,215)	-48.2
Core EBITDA	8,381	10,918	15,102	22,693	28,364	33,319	17.5	37,592	12.8	42,004	11.7
Maintenance capital expenditure	(5,327)	(5,258)	(17,167)	(49,677)	(62,053)	(42,121)	-32.1	(41,675)	-1.1	(37,671)	-9.6
Maintenance net working capital	710	4,596	7,250	1,076	(4,134)	2,175	-	6,785	212.0	2,558	-62.3
Operating free cash flow, pre-tax	3,763	10,255	5,185	(25,908)	(37,822)	(6,628)	-82.5	2,703	-	6,890	154.9

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

12-month rating

Buy

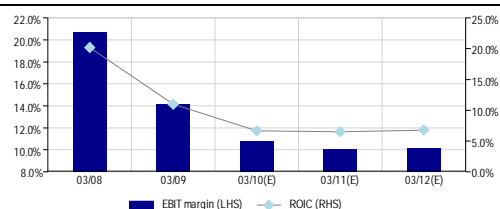
12m price target

Rs80.00

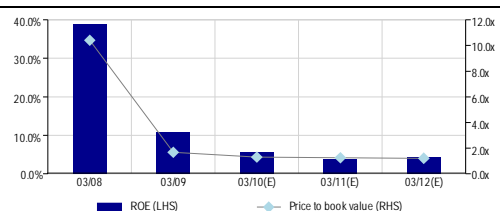
Company profile

Idea Cellular is a GSM mobile operator in India with a nationwide subscriber base of 43.0m (including Spice) for a market share of 11.1% as of March 2009. The company operates in 16 of 22 service areas in India and has access to 900 MHz spectrum in nine of 16 service areas. The company is part of the Aditya Birla Group.

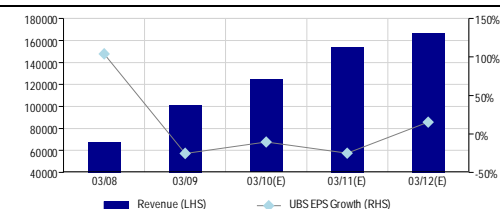
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
P/E (local GAAP)	-	30.5	24.3	25.7	34.3	29.7
P/E (UBS)	-	30.5	24.3	25.7	34.3	29.7
P/CEPS	-	16.6	9.4	7.6	7.8	6.9
Net dividend yield (%)	-	0.0	0.0	0.0	0.0	0.3
P/BV	-	10.4	1.7	1.3	1.3	1.2
EV/revenue (core)	-	5.3	2.4	2.2	1.8	1.7
EV/EBITDA (core)	-	15.8	8.5	8.1	7.3	6.6
EV/EBIT (core)	-	25.8	16.9	20.2	17.9	16.4
EV/OpFCF (core)	-	NM	NM	NM	NM	NM
EV/op. invested capital	-	5.2	1.9	1.3	1.2	1.1

	03/08	03/09	03/10E	03/11E	03/12E
Enterprise value (Rsm)					
Average market cap	316,810	203,817	210,651	210,651	210,651
+ minority interests	0	0	0	0	0
+ average net debt (cash)	42,241	58,258	79,370	85,572	87,199
+ pension obligations and other	0	0	0	0	0
- non-core asset value	(139)	(20,452)	(20,452)	(20,452)	(20,452)
Core enterprise value	358,912	241,623	269,569	275,772	277,399

Growth (%)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
Revenue	50.5	52.7	50.7	22.7	23.6	8.3
EBITDA (UBS)	55.1	50.3	25.0	17.5	12.8	11.7
EBIT (UBS)	119.2	66.1	3.0	-6.7	15.5	9.4
EPS (UBS)	-	104.1	-25.3	-10.5	-25.1	15.3
Cash EPS	101.9	61.0	5.1	17.3	-3.1	13.8
Net DPS	-	-	-	-	-	-
BVPS	69.0	31.0	NM	22.0	3.8	3.8

Margins (%)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
EBITDA / revenue	34.2	33.7	27.9	26.7	24.4	25.2
EBIT / revenue	16.0	20.7	14.1	10.7	10.0	10.1
Net profit (UBS) / revenue	3.9	15.5	8.7	6.7	4.2	4.5

Return on capital (%)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
EBIT ROIC (UBS)	14.3	20.2	11.0	6.7	6.5	6.8
ROIC post tax	-	18.9	10.3	5.8	5.0	5.3
Net ROE	16.3	39.0	10.8	5.5	3.7	4.1

Coverage ratios (x)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
EBIT / net interest	2.1	5.0	2.9	3.5	2.2	2.3
Dividend cover (UBS EPS)	-	-	-	-	-	10.1
Div. payout ratio (% UBS EPS)	-	-	-	-	-	9.9
Net debt / EBITDA	3.1	2.7	2.1	2.4	2.3	2.1

Efficiency ratios (x)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
Revenue / op. invested capital	0.8	1.0	0.8	0.6	0.6	0.7
Revenue / fixed assets	0.7	0.8	0.7	0.6	0.6	0.6
Revenue / net working capital	NM	NM	NM	NM	NM	NM

Investment ratios (x)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
OpFCF / EBIT	NM	NM	NM	NM	0.2	0.4
Capex / revenue (%)	NM	NM	NM	NM	27.1	22.6
Capex / depreciation	2.8	5.7	4.4	2.1	1.9	1.5

Capital structure (%)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
Net debt / total equity	NM	NM	43.9	46.1	47.9	47.9
Net debt / (net debt + equity)	73.5	66.3	30.5	31.6	32.4	32.4
Net debt (core) / EV	-	11.8	24.1	29.4	31.0	31.4

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptional and other special items.

Valuations: based on an average share price that year, (E): based on a share price of Rs67.95 on 08 Apr 2010 23:39 HKT Market cap(E) may include forecast share issues/buybacks.

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Appendix

Base station economics for a GBT

Table 34: 1 base station economics for a GBT

(Rs/month)	2x 4.4 MHz spectrum			2x 6.2 MHz spectrum		
	Scenario 1	Scenario 2	Scenario 3	Scenario 1	Scenario 2	Scenario 3
Number of minutes per BTS per month (capacity)	277,200	277,200	277,200	596,200	596,200	596,200
Capacity utilisation	50%	55%	60%	50%	55%	60%
Number of minutes generated per BTS per month	138,600	152,460	166,320	298,100	327,910	357,720
Voice revenue per min	0.40	0.40	0.40	0.40	0.40	0.40
Voice revenue	55,440	60,984	66,528	119,240	131,164	143,088
Non voice as a % of total revenue	4.0%	6.0%	8.0%	4.0%	6.0%	8.0%
Total revenue	57,750	64,877	72,313	124,208	139,536	155,530
Rent per tower per month	(35,000)	(35,000)	(35,000)	(35,000)	(35,000)	(35,000)
Diesel and electricity costs per tower per month	(25,000)	(25,000)	(25,000)	(25,000)	(25,000)	(25,000)
Backhaul costs	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)
Other network operating costs	(3,465)	(3,893)	(4,339)	(3,465)	(3,893)	(4,339)
Access charges	(4,574)	(5,031)	(5,489)	(9,837)	(10,821)	(11,805)
Licence fee per month	(5,318)	(5,985)	(6,682)	(11,437)	(12,872)	(14,373)
Employee costs	(3,465)	(3,893)	(4,339)	(3,465)	(3,893)	(4,339)
Subscriber acquisition & service charges	(5,775)	(6,488)	(7,231)	(12,421)	(13,954)	(15,553)
Recharge commission	(2,310)	(2,595)	(2,893)	(4,968)	(5,581)	(6,221)
Billing, customer care and IT services	(2,888)	(3,244)	(3,616)	(6,210)	(6,977)	(7,777)
SG&A	(6,930)	(7,785)	(8,678)	(6,930)	(7,785)	(8,678)
Total operating expense	(104,724)	(108,913)	(113,266)	(128,734)	(135,775)	(143,083)
Cost/min	0.76	0.71	0.68	0.43	0.41	0.40
EBITDA	(46,974)	(44,036)	(40,953)	(4,526)	3,761	12,447
EBITDA/min	(0.34)	(0.29)	(0.25)	(0.02)	0.01	0.03

Source: UBS estimates

Base station economics for an RTT

Table 35: 1 base station economics for an RTT

(Rs/month)	2x 4.4 MHz spectrum			2x 6.2 MHz spectrum		
	Scenario 1	Scenario 2	Scenario 3	Scenario 1	Scenario 2	Scenario 3
Number of minutes per BTS per month (capacity)	277,200	277,200	277,200	596,200	596,200	596,200
Capacity utilisation	50%	55%	60%	50%	55%	60%
Number of minutes generated per BTS per month	138,600	152,460	166,320	298,100	327,910	357,720
Voice revenue per min	0.40	0.40	0.40	0.40	0.40	0.40
Voice revenue	55,440	60,984	66,528	119,240	131,164	143,088
Non voice as a % of total revenue	4.0%	6.0%	8.0%	4.0%	6.0%	8.0%
Total revenue	57,750	64,877	72,313	124,208	139,536	155,530
Rent per tower per month	(30,000)	(30,000)	(30,000)	(30,000)	(30,000)	(30,000)
Diesel and electricity costs per tower per month	(25,000)	(25,000)	(25,000)	(25,000)	(25,000)	(25,000)
Backhaul costs	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)
Other network operating costs	(3,465)	(3,893)	(4,339)	(3,465)	(3,893)	(4,339)
Access charges	(4,574)	(5,031)	(5,489)	(9,837)	(10,821)	(11,805)
Licence fee per month	(5,318)	(5,985)	(6,682)	(11,437)	(12,872)	(14,373)
Employee costs	(3,465)	(3,893)	(4,339)	(3,465)	(3,893)	(4,339)
Subscriber acquisition & service charges	(5,775)	(6,488)	(7,231)	(12,421)	(13,954)	(15,553)
Recharge commission	(2,310)	(2,595)	(2,893)	(4,968)	(5,581)	(6,221)
Billing, customer care and IT services	(2,888)	(3,244)	(3,616)	(6,210)	(6,977)	(7,777)
SG&A	(6,930)	(7,785)	(8,678)	(6,930)	(7,785)	(8,678)
Total operating expense	(99,724)	(103,913)	(108,266)	(123,734)	(130,775)	(138,083)
Cost/min	0.72	0.68	0.65	0.42	0.40	0.39
EBITDA	(41,974)	(39,036)	(35,953)	474	8,761	17,447
EBITDA/min	(0.30)	(0.26)	(0.22)	0.00	0.03	0.05

Source: UBS estimates

New operators likely to struggle even more

In our *Q-Series®: India Mobile Sector—Do new operators have a business case?*, dated 24 March 2009, we highlighted that a new operator has no business case in India. We believe a new entrant is likely to face significant challenges—brand building, distribution, spectrum availability, organisation building, negative free cash flow, and scale. We developed a detailed financial model for a new operator, based on which we estimated the new operator is likely to EBITDA positive only in the fifth year of operations. Our DCF valuation yielded a negative EV of US\$25m for a new operator.

The market scenario has worsened since we wrote the report and rev/min has fallen even further. We update our financial model for a new operator to incorporate lower revenue per minute. We now believe a new operator is likely to take six years to achieve EBITDA breakeven. Our DCF valuation now yields a negative EV of US\$870m for a new operator.

New operator's pro-forma financials

Table 36: New operator's profit and loss statement

Yr ended March 31 (Rs m)	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Total revenue	7,132	16,887	33,443	46,088	58,345	69,504	79,317	86,671	92,637	97,284
% growth		136.8%	98.0%	37.8%	26.6%	19.1%	14.1%	9.3%	6.9%	5.0%
Passive infrastructure sharing expenses	(8,190)	(19,929)	(26,242)	(30,683)	(34,859)	(38,214)	(41,246)	(44,180)	(47,016)	(48,940)
Licence fees	(753)	(1,766)	(3,462)	(4,717)	(5,899)	(6,950)	(7,851)	(8,495)	(8,995)	(9,454)
Access charges	(398)	(773)	(1,172)	(1,080)	(647)	-	806	1,719	2,686	2,745
Intra circle roaming charges	(1,207)	(2,414)	(3,912)	(4,222)	(4,874)	(5,234)	(5,309)	(5,060)	(4,620)	(4,030)
Network operating costs	(428)	(1,013)	(2,007)	(2,765)	(3,501)	(4,170)	(4,759)	(5,200)	(5,558)	(5,837)
SG&A	(1,569)	(3,715)	(6,689)	(8,296)	(9,335)	(9,731)	(9,518)	(8,667)	(9,264)	(9,728)
Sub acquisition costs	(1,143)	(3,477)	(3,372)	(3,051)	(2,873)	(2,641)	(2,346)	(2,386)	(2,394)	(2,386)
Operating expenses - ex-D&A	(13,688)	(33,087)	(46,855)	(54,813)	(61,989)	(66,940)	(70,222)	(72,269)	(75,161)	(77,630)
EBITDA	(6,556)	(16,200)	(13,411)	(8,725)	(3,644)	2,564	9,094	14,402	17,476	19,653
% Margin	-91.9%	-95.9%	-40.1%	-18.9%	-6.2%	3.7%	11.5%	16.6%	18.9%	20.2%
Depreciation and amortisation	(2,123)	(4,063)	(5,195)	(6,085)	(6,893)	(7,529)	(7,999)	(8,468)	(8,930)	(9,389)
Interest and financing charges	589	(857)	(2,898)	(5,151)	(7,088)	(8,501)	(9,296)	(9,665)	(9,710)	(9,538)
Profit before tax	(8,090)	(21,120)	(21,504)	(19,961)	(17,625)	(13,467)	(8,200)	(3,731)	(1,165)	726
Pre X net profit	(8,090)	(21,120)	(21,504)	(19,961)	(17,625)	(13,467)	(8,200)	(3,731)	(1,165)	726

Source: UBS estimates

Table 37: Assumptions in determining passive infrastructure expenses

(Rs m)	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
New operator's mobile subs (m)	4.8	17.6	27.0	34.1	40.3	45.8	50.5	54.4	57.3	59.5
Subs pr BTS	242	588	770	853	917	975	1,011	1,036	1,043	1,083
% growth		143.4%	31.0%	10.7%	7.5%	6.3%	3.6%	2.5%	0.7%	3.9%
Number of BTS	20,000	30,000	35,000	40,000	44,000	47,000	50,000	52,500	55,000	55,000
Rentals per tower per month	(33,250)	(32,525)	(33,095)	(33,693)	(34,360)	(35,132)	(35,929)	(36,782)	(37,690)	(38,632)
Fuel and electricity costs per tower per month	(25,000)	(24,106)	(24,588)	(25,080)	(25,582)	(26,093)	(26,615)	(27,148)	(27,691)	(28,383)
Backhaul costs per tower per month	(10,000)	(9,800)	(9,604)	(9,412)	(9,224)	(8,762)	(8,324)	(7,908)	(7,513)	(7,137)
Total costs per tower per month	(68,250)	(66,431)	(67,288)	(68,185)	(69,165)	(69,988)	(70,869)	(71,838)	(72,893)	(74,152)
Tower rental expenses	(8,190)	(19,929)	(26,242)	(30,683)	(34,859)	(38,214)	(41,246)	(44,180)	(47,016)	(48,940)

Source: UBS estimates

Table 38: KPI for new operator

	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Mobile revenue (Rs m)	7,132	16,887	33,443	46,088	58,345	69,504	79,317	86,671	92,637	97,284
% non-voice revenue	15.4%	15.9%	16.5%	16.7%	16.5%	16.3%	16.3%	16.6%	16.9%	17.2%
Voice revenue (Rs m)	6,035	14,200	27,940	38,378	48,741	58,156	66,367	72,284	77,005	80,595
Mobile minutes carried (m)	15,088	36,224	72,730	99,901	121,998	141,323	158,113	172,211	183,457	192,011
Network sites	20,000	30,000	35,000	40,000	44,000	47,000	50,000	52,500	55,000	55,000
Mobile minutes carried per site per annum (m)	0.75	1.21	2.08	2.50	2.77	3.01	3.16	3.28	3.34	3.49
Voice rev. per min (Rs)	0.40	0.39	0.38	0.38	0.40	0.41	0.42	0.42	0.42	0.42
Cost per min (Rs)	0.77	0.77	0.54	0.46	0.42	0.40	0.37	0.35	0.34	0.33
Spread per min (Rs)	(0.37)	(0.38)	(0.15)	(0.07)	(0.02)	0.02	0.05	0.07	0.08	0.08
EBITDA margin *	-91.9%	-95.9%	-40.1%	-18.9%	-6.2%	3.7%	11.5%	16.6%	18.9%	20.2%
Return on equity (LTM)	-21.6%	-39.9%	-58.7%	-125.6%	607.2%	73.0%	28.0%	10.6%	3.1%	-1.9%
Return on capital employed (LTM)	-77.3%	-25.5%	-18.8%	-14.4%	-10.0%	-4.9%	1.2%	6.7%	10.2%	13.0%

Source: UBS estimates

Table 39: New operator ROIC analysis

ROIC analysis (Rs m)	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
New operator (CF)										
Net cash flow - capex + licence (Rs m)	38,808	19,404	14,553	12,128	12,128	6,950	7,138	6,934	6,948	6,810
Capex (network)	38,808	19,404	14,553	12,128	12,128	6,950	7,138	6,934	6,948	6,810
Capex-to-sales (%)	544%	114.9%	43.5%	26.3%	20.8%	10.0%	9.0%	8.0%	7.5%	7.0%
Gross PP&E	38,808	58,212	72,765	84,893	97,020	103,970	111,109	118,043	124,990	131,800
Net PP&E	37,514	53,684	63,872	70,744	76,808	77,058	77,027	76,323	75,169	73,420
Depreciation	1,294	3,234	4,366	5,255	6,064	6,700	7,169	7,638	8,101	8,560
Net intangibles	15,756	14,927	14,098	13,269	12,439	11,610	10,781	9,951	9,122	8,293
Amortisation licence fee	829	829	829	829	829	829	829	829	829	829
Depreciation & amortisation	2,123	4,063	5,195	6,085	6,893	7,529	7,999	8,468	8,930	9,389
New operator P&L										
Market share (%)	0.8%	2.6%	3.5%	3.9%	4.3%	4.5%	4.7%	4.9%	5.0%	5.0%
Incremental market share (%)	3.0%	10.0%	9.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Operator subs (m)	4.6	17.4	26.7	33.8	40.1	45.6	50.3	54.1	57.1	59.3
ARPU (Rs)	130	128	126	127	132	135	138	138	139	139
Voice ARPU (Rs)	110	108	106	106	110	113	115	115	115	115
Data ARPU (Rs)	20	20	21	21	22	22	23	23	23	24
Operator revenue (Rs m)	7,132	16,887	33,443	46,088	58,345	69,504	79,317	86,671	92,637	97,284
EBITDA (Rs m)	(6,556)	(16,200)	(13,411)	(8,725)	(3,644)	2,564	9,094	14,402	17,476	19,653
EBITDA margin (%)	-91.9%	-95.9%	-40.1%	-18.9%	-6.2%	3.7%	11.5%	16.6%	18.9%	20.2%
Depreciation & amortisation (Rs m)	(2,123)	(4,063)	(5,195)	(6,085)	(6,893)	(7,529)	(7,999)	(8,468)	(8,930)	(9,389)
D&A to revenue (%)	29.8%	24.1%	15.5%	13.2%	11.8%	10.8%	10.1%	9.8%	9.6%	9.7%
EBIT (Rs m)	(8,679)	(20,263)	(18,607)	(14,810)	(10,537)	(4,965)	1,096	5,934	8,545	10,264
Invested capital (Rs m)	53,144	68,311	77,374	83,192	88,208	87,430	86,396	84,731	82,642	79,980
Return on invested capital (%)	-24.9%	-33.4%	-25.5%	-18.4%	-12.3%	-5.7%	1.3%	6.9%	10.2%	12.6%

Source: UBS estimates

We believe a new operator's rev/min would need increase from Rs0.40 to Rs0.55 to achieve 0% ROIC in FY14 and increase to Rs0.70 per minute to achieve ROIC = WACC.

Table 40: New operator's balance sheet statement

Year ended 31 Mar (Rs m)	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2018E
Sundry debtors	586	1,388	2,749	3,788	4,796	5,713	6,519	7,124	7,614	7,996
Cash and bank balances	35,352	39,064	38,497	32,718	25,077	12,388	5,223	3,157	4,081	7,469
Total current assets	35,938	40,452	41,246	36,506	29,873	18,100	11,742	10,281	11,695	15,465
PPE - net	37,514	53,684	63,872	70,744	76,808	77,058	77,027	76,323	75,169	73,420
Licence fee	15,756	14,927	14,098	13,269	12,439	11,610	10,781	9,951	9,122	8,293
Total non-current assets	53,271	68,612	77,969	84,012	89,247	88,668	87,808	86,274	84,291	81,712
Total assets	89,209	109,064	119,215	120,519	119,120	106,769	99,550	96,555	95,986	97,177
Current liability	713	1,689	3,344	4,609	5,835	6,950	7,932	8,667	9,264	9,728
Secured loans	30,000	60,000	90,000	110,000	125,000	125,000	125,000	125,000	125,000	125,000
Total liabilities	30,713	61,689	93,344	114,609	130,835	131,950	132,932	133,667	134,264	134,728
Equity share capital	66,586	76,586	76,586	76,586	76,586	76,586	76,586	76,586	76,586	76,586
Profit & loss account	(8,090)	(29,211)	(50,715)	(70,676)	(88,301)	(101,767)	(109,967)	(113,698)	(114,863)	(114,137)
Total shareholders equity	58,495	47,375	25,871	5,910	(11,715)	(25,182)	(33,382)	(37,112)	(38,277)	(37,551)
Total liabilities + shareholders' equity	89,209	109,064	119,215	120,519	119,120	106,769	99,550	96,555	95,986	97,177

Source: UBS estimates

Table 41: EV calculation for new operator based a DCF methodology

(Rs m)	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
EBIT	(8,679)	(20,263)	(18,607)	(14,810)	(10,537)	(4,965)	1,096	5,934	8,545	10,264
Cash tax rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
EBIT*(1-t)	(8,679)	(20,263)	(18,607)	(14,810)	(10,537)	(4,965)	1,096	5,934	8,545	10,264
D&A	2,123	4,063	5,195	6,085	6,893	7,529	7,999	8,468	8,930	9,389
Capex	(38,808)	(19,404)	(14,553)	(12,128)	(12,128)	(6,950)	(7,138)	(6,934)	(6,948)	(6,810)
Change in WC	(127)	(301)	(596)	(821)	(1,039)	(1,238)	(1,412)	(1,543)	(1,650)	(1,732)
FCFF	(45,491)	(35,905)	(28,560)	(21,673)	(16,810)	(5,625)	543	5,925	8,878	11,111
FCFF - discounted	(45,491)	(35,905)	(25,370)	(17,102)	(11,783)	(3,502)	300	2,911	3,875	4,307
Value of cash flow 2011-19E	(82,268)	WACC								
Terminal value - 2% growth	42,809	Rf	7.7%							
Enterprise value (Rs m)	(39,458)	Rm - Rf	5.0%							
		Beta	1.30							
		Ce	14.2%							
		Cd	7.7%							
		Leverage	25.0%							
EV (US\$ m)	(870)	WACC	12.6%							

Source: UBS estimates

Excerpt from *Q-Series®: India Mobile Sector— Do new operators have a business case?*

We conducted a proprietary survey of 30 Indian mobile industry participants with an average experience of over 10 years. Below is the summary from our proprietary survey conducted in 2009.

Table 42: Summary of survey results

Q1. Do you think new entrants have a business case in India?			
A: Yes (23%)	B: No (77%)		
Q2. What challenges are the new operators likely to face?			
A: Expensive 1800 MHz spectrum (50%)	B: Lack brand presence (47%)	C: Late entrants in all circles (43%)	D: Get low ARPU customers (40%)
E: Need to build a distribution network (33%)	F: Negative EBITDA for ~5 years (30%)	G: Lack own passive infrastructure (17%)	
Q3. Do you think 2x4.4 MHz spectrum will be good enough for the new operators to roll-out a nationwide network?			
A: Insufficient (54%)	B: Sufficient (46%)		
Q4. What role, in your view, will the tower companies play in the launch?			
A: Reduces time to market (63%)	B: Lowers capex requirement (53%)		
Q5. What will be the role of active infrastructure sharing?			
A: Reduces time to market (7%)	B: Lowers capex requirement (7%)	C: Not practical, as spectrum pooling is not allowed (60%)	
Q6. Do you think there is any other way new operators can innovate?			
A: Yes (40%)	B: No (33%)	C: No comments (27%)	
Q7. Who in your view is likely to launch in CY09?			
A: Tata Tele GSM (90%)	B: Unitech-Telenor (73%)	C: Swan-Etisalat (70%)	D: Sistema Shyam Telelink (27%)
E: Datacom Solutions (7%)	F: Loop Telecom (3%)	G: S-Tel (3%)	
Q8. Who in your view is likely to have higher chances of success?			
A: Tata Tele GSM (50%)	B: Unitech-Telenor (30%)	C: Swan-Etisalat (20%)	D: Loop Telecom (0%)
E: Sistema Shyam Telelink (0%)	F: Datacom Solutions (0%)	G: S-Tel (0%)	
Q9. What in your view is likely to be the cost of a nationwide launch, with passive infrastructure sharing?			
A: Less than \$1b (25%)	B: \$1-2b (50%)	C: More than \$2b (25%)	
Q10. What in your view is likely to be the cost of a nationwide launch, without passive infrastructure sharing?			
A: Less than \$2b (6%)	B: \$2-3b (31%)	C: More than \$3b (63%)	

Source: UBS

■ **Statement of Risk**

Changes in the competitive and regulatory landscape and technology advances could have an impact on our estimates and valuations for mobile operators. We believe irrational competition among existing operators presents the biggest risk to our forecasts, ratings, and price targets.

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage ¹	IB Services ²
Buy	Buy	50%	39%
Neutral	Hold/Neutral	40%	33%
Sell	Sell	11%	24%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
Buy	Buy	less than 1%	29%
Sell	Sell	less than 1%	0%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 31 March 2010.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	Definition
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

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Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

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Equity Price Targets have an investment horizon of 12 months.

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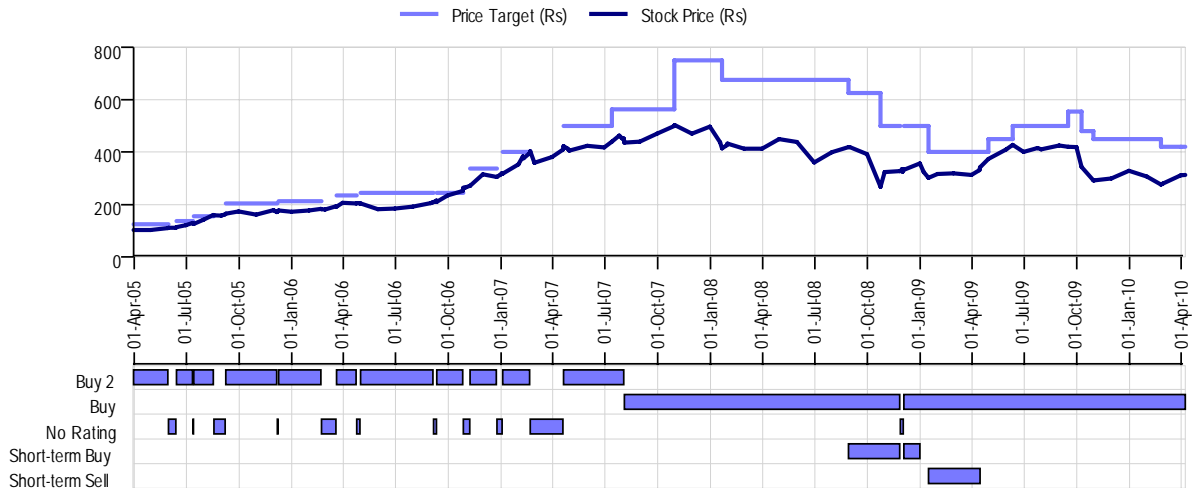
Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Bharti Airtel Ltd.	BRTI.BO	Buy	N/A	Rs312.80	08 Apr 2010
Idea Cellular	IDEA.BO	Buy	N/A	Rs67.95	08 Apr 2010

Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

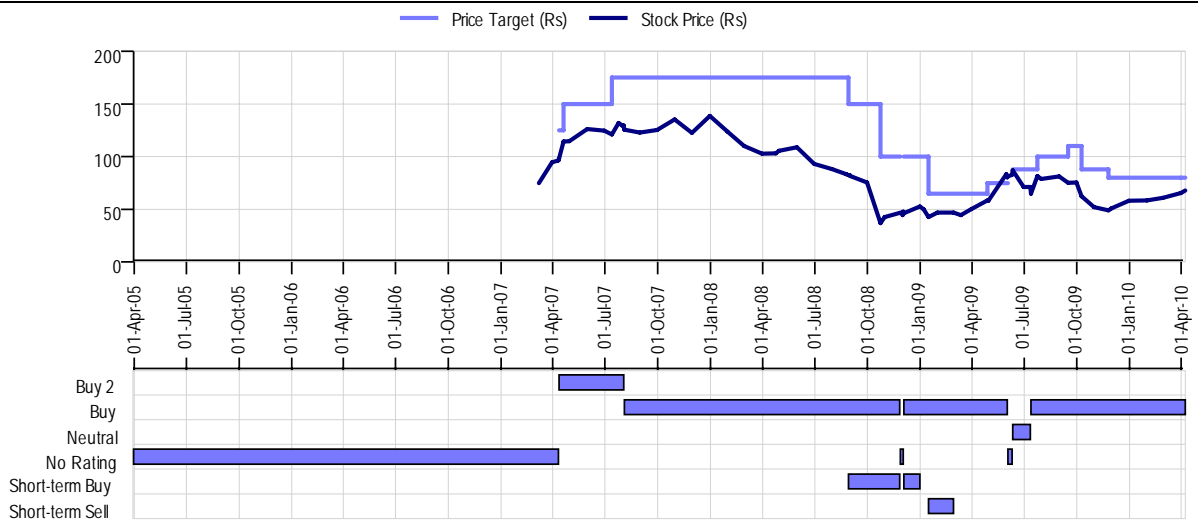
Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Bharti Airtel Ltd. (Rs)



Source: UBS; as of 08 Apr 2010

Idea Cellular (Rs)



Source: UBS; as of 08 Apr 2010

Note: On August 4, 2007 UBS revised its rating system. (See 'UBS Investment Research: Global Equity Rating Definitions' table for details). From September 9, 2006 through August 3, 2007 the UBS ratings and their definitions were: Buy 1 = FSR is > 6% above the MRA, higher degree of predictability; Buy 2 = FSR is > 6% above the MRA, lower degree of predictability; Neutral 1 = FSR is between -6% and 6% of the MRA, higher degree of predictability; Neutral 2 = FSR is between -6% and 6% of the MRA, lower degree of predictability; Reduce 1 = FSR is > 6% below the MRA, higher degree of predictability; Reduce 2 = FSR is > 6% below the MRA, lower degree of predictability. The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities. From October 13, 2003 through September 8, 2006 the percentage band criteria used in the rating system was 10%.

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