

Indian Wireless

EARNINGS AND TARGET PRICE DOWNGRADE

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Worsening metrics in the wireless industry are likely to converge into significant pressure on earnings of incumbents. Initial success of new entrants, while leading to faster penetration, will also predictably cause higher fragmentation. Price wars are set to persist as the well-funded new players aim to achieve critical subscriber mass. Given the attractive tariffs by new entrants, we see increasing incidence of multiple SIMs – and therefore a faster than anticipated decline in usage. For Q3FY10, we expect the aggressive price cuts to lead to 9-14% qoq drop in wireless ARPU and a 2-4% qoq decline in wireless revenues for our coverage stocks. Idea is the most vulnerable to competition and we expect losses in its new circles to widen to Rs1.1bn in the quarter. We cut our FY11E earnings for Bharti by 3%, RCOM by 21% and we see Idea reporting losses. While consolidation is unlikely in the near term, regulatory overhang in terms of delay in number portability and 3G auctions also remains. Incrementally, fewer 3G slots raise the risk of overbidding by players. Maintain Underperformer on Bharti, RCOM and Idea with revised price targets of Rs330, Rs188 and Rs54 respectively.

Exhibit 1: Revised estimates for our coverage universe

	Bharti Airtel			Reliance Communications			Idea Cellular		
	FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E
Earlier estimates									
Revenues (Rs m)	369,615	394,918	412,032	229,485	234,187	259,346	101,544	121,333	134,755
EBIDTA (Rs m)	151,680	163,035	164,620	93,049	88,759	98,416	28,364	32,643	36,234
Adjusted EPS (Rs)	25.5	23.3	21.2	21.9	16.7	15.7	3.0	2.5	1.2
Wireless MOU (min)	508	447	415	406	337	308	423	378	357
Wireless Rev/min (Rs)	0.64	0.55	0.47	0.63	0.48	0.43	0.63	0.55	0.47
Wireless ARPU (Rs)	325	244	195	255	163	132	265	204	170
Wireless EBIDTA/min (Rs)	0.20	0.17	0.14	0.24	0.17	0.14	0.17	0.13	0.12
New estimates									
Revenue (Rs m)	369,615	390,812	404,895	229,485	234,649	253,867	101,544	116,881	126,467
EBIDTA (Rs m)	151,680	160,867	160,684	93,049	85,543	85,035	28,364	29,695	30,734
Adjusted EPS (Rs)	25.5	23.3	20.7	21.9	15.5	12.5	3.0	1.8	(0.5)
Wireless MOU (min)	508	448	415	406	334	307	423	367	336
Wireless Rev/min (Rs)	0.64	0.54	0.46	0.63	0.48	0.42	0.63	0.53	0.46
Wireless ARPU (Rs)	325	241	191	255	161	129	265	193	154
Wireless EBIDTA/min (Rs)	0.20	0.17	0.13	0.24	0.16	0.12	0.17	0.12	0.11
Change in estimates (%)									
Revenue		(1.0)	(1.7)		0.2	(2.1)		(3.7)	(6.2)
EBIDTA		(1.3)	(2.4)		(3.6)	(13.6)		(9.0)	(15.2)
Adjusted EPS		(0.1)	(2.5)		(7.0)	(20.7)		(29.1)	(147.5)
Wireless MOU		0.2	0.1		(0.8)	(0.4)		(2.9)	(5.9)
Wireless Rev/min		(1.4)	(2.1)		0.0	(2.1)		(2.6)	(3.4)
Wireless ARPU		(1.2)	(2.0)		(0.8)	(2.4)		(5.4)	(9.1)
Wireless EBIDTA/min		(3.1)	(2.1)		(2.7)	(15.2)		(8.6)	(13.3)

Source: Company data, IDFC-SSKI Research

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Business dynamics deteriorating further

Entry of new operators in the market has led to higher subscriber additions every month, much ahead of our estimates. In the near term, we expect the pace of subscriber addition to remain strong and pricing to be a key armor in the fight for market share. Initial success of new operators further weakens the case for early consolidation in the sector. In addition, overbidding for the scarce 3G spectrum and increase in revenue-churn post number portability pose key business risks for incumbents.

❑ Competition unlikely to ease as market continues to grow

New market launches by DoCoMo, Idea, Sistema, Aircel and Uninor have led to higher monthly subscriber additions from ~12m in Q1FY10 to ~17m in Q3FY10. DoCoMo has been the market leader for incremental additions for the last four months. Also, Uninor – despite being the 7-8th operator in its eight circles added an impressive 1.2m subscribers in the first month – thereby garnering an estimated 12% share of the incremental market in these circles.

Exhibit 2: Growth in monthly subscriber additions

('000)	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09**
Bharti	2,819	2,810	2,819	2,515	2,702	2,800	2,850
Vodafone Essar	2,369	2,231	2,194	1,972	2,980	2,781	2,794
BSNL (GSM + CDMA)	766	1,596	1,344	1,452	675	1,349	2,161
Idea + Spice	1,611	1,428	1,542	1,396	1,901	2,550	1,707
Aircel	1,113	1,303	1,314	1,313	2,018	1,608	1,670
Reliance (GSM + CDMA)	2,393	2,391	2,106	2,005	2,096	2,773	2,773
MTNL (GSM + CDMA)	38	36	21	17	58	81	65
BPL Mobile	49	45	67	78	50	50	54
Tata Tele (GSM + CDMA)	625	2,259	3,418	4,007	3,868	3,329	3,329
Others *	255	278	261	228	322	325	1,674
Total Subs	12,036	14,377	15,085	14,982	16,671	17,646	19,077
Circle Mix							
Metros	10.7	12.1	12.6	13.3	10.0	11.5	10.7
Circle A	32.6	34.7	35.4	38.2	35.1	29.7	31.8
Circle B	40.4	36.8	37.0	35.4	40.9	45.0	40.9
Circle C	16.3	16.5	15.0	13.1	14.0	13.8	16.6
Total Subs	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: TRAI, Company data, IDFC-SSKI Research;

Note: * Others include HFCL, Sistema, STel and Uninor; ** For Dec 09 we have assumed CDMA operators report flat net additions

We expect subscriber growth to remain robust with wireless penetration rising from 43% currently to 59% by March 2011. We believe that new operators would be more aggressive so as to garner market share in this phase of rapid growth in subscriber base. In addition, three more operators (Etisalat, Datacom and Loop Telecom) are ready to launch services and we see no respite from competitive pressure in the near term.

The trend of multiple SIMs is increasing every month, particularly in Urban India, and operators are fighting more for usage share rather than subscriber market share. We believe subscriber growth would continue to outpace the growth in traffic on network, resulting into further worsening of wireless metrics.

❑ Pricing war – more to come

Aircel and MTS were the first to respond to DoCoMo's per-second billing, but we believe the real shift in sector dynamics happened with 'Simply Reliance' offerings. Idea and Aircel also reported a marked shift in performance in circles where they test-launched per-second tariff. This led to the introduction of per-second tariff by incumbents across circles. Recently, MTS and MTNL have lowered the bar further to 1p/2sec in select circles. Also, under some of the 'rate-cutter' schemes, MTS and DoCoMO even offer call rates as low as 1p/6sec for on-net local calls.

RCOM took the pricing war in voice to SMS with introduction of 1p/SMS for a fixed monthly rental of Rs11. We do not expect incumbents to match RCOM's SMS offer as it would likely lead to ~70% decline in SMS revenue and 10-11% fall in

wireless EBITDA. Last week, MTNL launched new 3G prepaid plans with on-net local video call rates of just 20p/min – down from Rs1.8/min in February 2009.

Pricing is clearly perceived to be the biggest driver of subscriber additions and new operators look ready to fight hard. We believe pricing may not have yet bottomed out as the fight for usage share is set to get tougher with Etisalat, Datacom and Loop Telecom ready to launch services soon. Any further decline in tariffs would be a key downside risk to our estimates.

Exhibit 3: Lead pricing plans across operators

Uninor			Simply Reliance			Airtel/ DoCoMo/ Idea/ Vodafone	STel		MTS/ MTNL
Local calls	0.29	0.29	0.01/sec	0.50/min	1/3min	0.01/sec	0.01/sec	0.50/min	0.01/2sec
STD calls	0.49	0.49	0.01/sec	0.50/min	1/3min	0.01/sec	0.01/sec	0.50/min	0.01/sec
Rental / Fees	2/day	0.39/call	0	0	0	0	0	0	0

Source: Company data, IDFC-SSKI Research

❑ Consolidation – still some time away

We believe all the new operators are backed by well-funded groups (Telenor, Etisalat, DoCoMo/ Tata) and are ready to fight tough for market share. It is also unlikely that new operators will get attractive exit valuations without a substantial scale in Indian operations, which would come at the cost of incumbents. In addition, current M&A guidelines do not permit immediate consolidation and we believe any form of change from the regulator is unlikely to come in a hurry.

❑ Regulatory overhangs remain

Uncertainties around the regulatory landscape still remain as MNP implementation and 3G auctions have being delayed further. Number portability, originally scheduled to be launched in metros and 'A' circles by 31 December 2009, is now likely to be launched pan-India by 1 April 2010. A further delay is possible as the FIPB has deferred its earlier approval for Telcordia (one of the two companies chosen for implementing MNP in India) on security concerns raised by the home ministry.

3G/ WiMax auctions have also been delayed to mid-February. Some of the key issues, like the number of slots available in each circle and payment schedule for successful bidders, are yet to be decided by the government. A notice inviting application for the auction with complete details is expected to be released shortly. Successful bidders would be allotted spectrum in August 2010 and we expect commercial rollouts by Q3FY10. In addition, regulator's view on future allotment of 2G spectrum is also under cloud, which would hurt the expansion plans of operators.

Overbidding in 3G auctions is a big risk due to fewer slots and aggressive pricing by MTNL further weakens the business case for 3G services. Also, number portability is set to increase revenue churn for the incumbents in the near term as operators would fight aggressively for the high-usage postpaid customers.

Q3FY10: Beginning of the fall

An aggressive pricing war, we believe, will exert pressure on wireless metrics across the board. We estimate a 9-14%qoq decline in ARPU and 70-420bp decline in wireless margins of our coverage universe in Q3FY10. Notably, Idea would bear the maximum brunt as it has launched services in five new markets in the quarter. On this count, we estimate Idea's losses in new circles to increase to Rs1.1bn from Rs830m in Q2FY10. We estimate 15-25% of the Q2FY10 subscriber base to have migrated to lower tariffs. We expect Bharti, RCOM and Idea to report 3QFY10 consolidated EPS of Rs 5.7, Rs 3.7 and Rs 0.20, respectively. However, lower-than-expected subscriber migration to new plans and upfront accounting of recharge revenues from these subscribers are key positive risks to our estimates.

❑ Subscriber growth remains robust

The industry is expected to have added an average of 18m subscribers per month in Q3FY10, up from 14.8m in Q2FY10 and 10.5m in the year-ago quarter. Tata DoCoMo has been the leader for four consecutive months with average net adds of 3.65m followed by Bharti and Vodafone's 2.7m and 2.5m net adds respectively.

❑ Deterioration of wireless metrics set to accelerate

On the back of aggressive price cuts and intense competition, we believe wireless metrics of all the listed operators would deteriorate significantly. We estimate 7-9%qoq drop in yields for Idea and Bharti, up from ~4%qoq in Q2FY10. Notably, RCOM had reported a 17.5%qoq drop in yields in Q2FY10, mainly due to elimination of handset revenues in the wireless segment. We estimate a ~5% decline in revenue per minute for RCOM in Q3FY10. ARPU for our coverage universe is likely to decline by 9-14%qoq, leading to a 2-4% decline in wireless revenues. A sharp decline in tariffs and new market launches, we believe, would lead to margin erosion of 70-420bp.

Exhibit 4: Quarterly trend of key wireless metrics

	Q1FY09	Q2FY09	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10E
Bharti Airtel							
EoP Subscribers (m)	69.4	77.5	85.7	93.9	102.4	110.5	118.8
Net additions (m)	7.4	8.1	8.2	8.3	8.4	8.1	8.3
Total minutes (million minutes)	105,217	115,834	123,626	130,669	140,713	143,680	150,930
Average revenue/min (Rs)	0.66	0.63	0.64	0.63	0.58	0.56	0.52
MoU /sub / month (mins)	534	526	505	485	478	450	439
ARPU (Rs)	351	331	324	305	279	252	228
Wireless revenues (Rs m)	69,150	72,843	79,392	82,216	82,285	80,994	78,483
YoY growth (%)	47.2	44.0	41.5	28.1	19.0	11.2	(1.1)
Wireless EBITDA (Rs m)	21,218	22,009	24,963	25,860	27,183	25,860	22,996
EBITDA / min (Rs)	0.20	0.19	0.20	0.20	0.19	0.18	0.15
EBITDA margin (%)	30.7	30.2	31.4	31.5	33.0	31.9	29.3
RCOM							
EoP Subscribers (m)	50.8	56.0	61.3	72.7	79.6	86.1	93.8
Net additions (m)	5.0	5.3	5.3	11.3	7.0	6.5	7.7
Total minutes (m minutes)	62,000	67,800	72,100	74,800	83,300	84,500	87,613
Average revenue/min (Rs)	0.67	0.64	0.61	0.60	0.58	0.47	0.45
MoU /sub / month (mins)	424	423	410	372	365	340	325
ARPU (Rs)	282	271	251	224	210	161	146
Wireless revenues (Rs m)	41,187	43,356	44,119	45,015	47,931	40,100	39,426
YoY growth (%)	22.1	18.3	11.5	8.2	16.4	(7.5)	(10.6)
Wireless EBITDA (Rs m)	16,623	16,859	16,616	16,629	18,489	13,132	12,616
EBITDA / min (Rs)	0.27	0.25	0.23	0.22	0.22	0.16	0.14
EBITDA margin (%)	40.4	38.9	37.7	36.9	38.6	32.7	32.0
Idea Cellular (standalone)							
EoP Subscribers (m)	27.2	30.4	34.2	38.9	42.8	46.8	52.7
Net additions (m)	3.2	3.2	3.8	4.7	3.9	4.0	5.9
Total minutes (m minutes)	33,087	36,315	40,254	44,224	48,729	50,339	52,864
Average revenue/min (Rs)	0.65	0.63	0.65	0.63	0.58	0.56	0.51
MoU /sub / month (mins)	428	417	410	402	399	375	354
ARPU (Rs)	280	263	268	255	232	209	180
Wireless revenues (Rs m)	21,781	23,006	26,209	28,626	28,883	28,909	27,687
YoY growth (%)	47.4	47.3	53.4	45.1	32.6	25.7	5.6
Wireless EBITDA (Rs m)	7,203	6,080	6,805	7,415	7,701	7,307	5,831
EBITDA / min (Rs)	0.22	0.17	0.17	0.17	0.16	0.15	0.11
EBITDA margin (%)	33.1	26.4	26.0	25.9	26.7	25.3	21.1

Source: Company data, IDFC-SSKI Research

❑ Key risks – recharge revenue and proportion of traffic on new plans

Q3FY10 results could positively surprise on two counts – accounting of recharge revenue from customers migrating to new plans; and lower-than expected proportion of traffic on lower tariffs. We have assumed that RCOM would account for the recharge revenue upfront in Q3 itself while Bharti and Idea would amortise it over a one-year period. This upfront accounting is expected to cushion the drop in yields for RCOM by Re0.02 (3.7%).

We estimate that 15-25% of the Q2FY10 subscriber base would have migrated to lower tariff plans. Migration at Bharti would be relatively lower as the company had introduced per-second tariff on 30 October 2009 while RCOM introduced 'Simply Reliance' at the beginning of Q3.

Exhibit 5: Calculation of revenue yields (including the impact of traffic migration to new plans)

	Bharti	RCOM	Idea
2QFY10 revenue / min	0.56	0.47	0.56
Estimated RPM of new plans	0.41	0.35	0.39
Customer migration (assumption) (%)	15.0	25.0	20.0
Proportion of subs on new plans (including 3Q gross adds) (%)	25.0	35.0	36.0
Blended RPM	0.52	0.43	0.50
Recharge revenue from migration / min	0.00	0.02	0.01
Final blended RPM (3QFY10E)	0.52	0.45	0.51

Source: Company data, IDFC-SSKI Research

❑ Bharti Airtel – best placed with cushion from other businesses

We expect Bharti to report consolidated revenue and EBITDA growth of 0.3% and 0.5%yoy in Q3FY10 vs 9.1% and 12% in Q2FY10. We estimate EPS of Rs5.7, down from Rs 6.3 in Q2FY10 and year-ago quarter.

We estimate Bharti's wireless revenues to decline by 1.1%yoy, primarily driven by a 29.7%yoy decline in ARPU. Due to increasing competition, we see deterioration in key metrics – we estimate minutes of usage to fall by 2.5%qoq to 439 from 450 in Q2FY10 and 505 in 3QFY09, while average realized rate per minute would come down to Re0.52 from Re0.56 in Q2FY10. On the other hand, enterprise revenue growth is estimated to be 0.6%yoy, up from the 2.5% decline reported in Q2FY10 as macroeconomic fundamentals have improved globally.

Exhibit 6: Bharti Airtel – key 3QFY10 estimates

	Dec-08	Sep-09	Dec-09 (E)	qoq (%)	yoy (%)
Consolidated US GAAP					
Total revenues (Rs m)	96,334	98,455	96,595	(1.9)	0.3
Total EBITDA (Rs m)	39,452	41,416	39,659	(4.2)	0.5
Margin (%)	41.0	42.1	41.1		
Net profit (Rs m)	23,814	23,888	21,716	(9.1)	(8.8)
		57,039	56,936	(0.2)	
Wireless business					
Subscribers (m)	85.7	110.5	118.8	7.5	38.7
ARPU (Rs)	324	252	228	(9.5)	(29.6)
MOU mins)	505	450	439	(2.5)	(13.2)
RPM (Rs)	0.64	0.56	0.52	(7.1)	(19.0)
Revenues (Rs m)	79,392	80,994	78,483	(3.1)	(1.1)
EBITDA (Rs m)	24,963	25,860	22,996	(11.1)	(7.9)
Margin (%)	31.4	31.9	29.3		
Passive Infrastructure					
Total Towers (units)	61,355	29,112	30,112	3.4	(50.9)
Sharing factor (x)	1.3	1.49	1.52	2.0	13.4
Sharing revenue/op/mth (Rs)	31,488	36,696	36,513	(0.5)	16.0
Revenues (Rs m)	12,702	8,586	8,885	3.5	(30.1)
EBITDA (Rs m)	4,258	4,020	4,153	3.3	(2.5)
Margin (%)	33.5	46.8	46.7		
Telemedia					
Subscribers (m)	2.6	2.9	3.1	4.1	16.4
ARPU (Rs)	1,098	989	980	(0.9)	(10.8)
Revenues (Rs m)	8,458	8,544	8,782	2.8	3.8
EBITDA (Rs m)	3,531	3,667	3,689	0.6	4.5
Margin (%)	41.7	42.9	42.0		
Long Distance (carriers) & Enterprise					
NLD minutes (m)	11,609	12,417	12,852	3.5	10.7
ILD minutes (m)	2,603	3,181	3,340	5.0	28.3
Revenues (Rs m)	21,808	21,331	21,928	2.8	0.6
EBITDA (Rs m)	9,799	11,023	10,942	(0.7)	11.7
Margin (%)	44.9	51.7	49.9		

Source: Company data, IDFC-SSKI Research

❑ Reliance Communications – not much to lose

We estimate RCOM to report consolidated revenues of Rs57.5bn and a 35.4% EBITDA margin. We expect consolidated recurring EPS (excluding forex gain/ loss) of Rs3.7 in Q3FY10, down 25% from Rs5 in Q2FY10, primarily due to tax write-backs of Rs1.7bn in the previous quarter.

We forecast a net realization of Re0.45/minute for Q3, down from Re0.47 in Q2FY10. As highlighted above, the decline in realization would be lower by Re0.02 because of our assumption that the company will account for the recharge revenue upfront. ARPU is expected to come in at Rs146, down 41.7%yoy, resulting into a 10.6%yoy revenue decline in Q3FY10 (vs a 7.5% decline in Q2FY10).

We expect annual revenue growth in the global segment to improve to 45.7% in Q3FY10 from 33.9% in Q2, led by several new deal wins in the last quarter and improvement in the global macroeconomic environment. Broadband revenues are expected to increase by 18%yoy to Rs7.7bn with EBITDA margin of 41.9%.

Exhibit 7: RCOM – key Q3FY10 estimates

	Dec-08	Sep-09	Dec-09E	qoq (%)	yoy (%)
Summary financials (Rs m)					
Total revenues	58,502	57,026	57,482	0.8	(1.7)
Total EBITDA	23,525	20,198	20,343	0.7	(13.5)
Margin (%)	40.2	35.4	35.4		
Adjusted Net profit	9,958	10,235	7,643	(25.3)	(23.2)
Reported Net profit	14,103	7,403	7,643	3.2	(45.8)
Wireless Business					
Subscribers (m)	61.3	86.1	93.8	8.9	52.9
ARPU (Rs)	251	161	146	(9.4)	(41.8)
MOU (no.)	410	343	325	(5.4)	(20.8)
Rs/min	0.61	0.47	0.45	(4.3)	(26.5)
Revenues (Rs m)	44,119	40,100	39,426	(1.7)	(10.6)
EBITDA (Rs m)	16,616	13,132	12,616	(3.9)	(24.1)
Margin (%)	37.7	32.7	32.0		
Global business					
NLD min (m min)	8,576	11,205		(100.0)	(100.0)
ILD min (m min)	1,906	2,165		(100.0)	(100.0)
Revenues (Rs m)	16,783	22,643	24,455	8.0	45.7
EBITDA (Rs m)	4,315	5,227	5,576	6.7	29.2
Margin (%)	25.7	23.1	22.8		
Broadband					
ARPL (Rs)	1,681	1,794		(100.0)	(100.0)
Revenues (Rs m)	6,542	7,700	7,722	0.3	18.0
EBITDA (Rs m)	2,760	3,199	3,236	1.2	17.2
Margin (%)	42.2	41.5	41.9		

Source: Company data, IDFC-SSKI Research

❑ Idea Cellular – most vulnerable

We expect Idea to report consolidated revenues and EBITDA of Rs28.5bn and Rs6.7bn respectively. Consolidated EPS is expected to come in at Re0.20 in Q3FY10, down 72.3%yoy from Re 0.71 in Q3FY09.

We estimate Idea's standalone revenue growth to decelerate to 5.6%yoy from 25.7% in Q2FY10 as increasing competition leads to a decline in usage to 354 minutes (down 13.6%yoy) and in average realized rate to Re0.51 (down 22.4%yoy). Lower yields and network expansion would lead to a 420bp sequential contraction in Idea's standalone margin to 21.1%. We expect losses in new circles to increase to Rs1.1bn.

Exhibit 8: Idea Cellular – key 3QFY10 estimates

(Rs m)	Dec-08	Sep-09	Dec-09	QoQ	YoY
Consolidated KPIs					
Subscribers (m)	38.0	51.5	58.1	12.8	52.9
ARPU (Rs)	285	213	183	(14.2)	(35.9)
MOU (no.)	445	379	358	(5.6)	(19.6)
Rs/min	0.65	0.56	0.51	(9.1)	(20.9)
Consolidated Financials					
Revenues	27,305	29,739	28,509	(4.1)	4.4
EBITDA	6,969	8,095	6,699	(17.3)	(3.9)
Margin (%)	25.5	27.2	23.5		
Net profit	2,195	1,989	608	(69.4)	(72.3)
Standalone					
Subscribers (m)	34.2	46.8	52.7	12.5	53.9
ARPU (Rs)	268	209	180	(14.0)	(32.9)
MOU (no.)	410	375	354	(5.5)	(13.6)
Revenues	26,209	28,909	27,687	(4.2)	5.6
EBITDA	6,805	7,307	5,831	(20.2)	(14.3)
Margin (%)	26.0	25.3	21.1		

Source: Company data, IDFC-SSKI Research

Valuations & View

With valuation of new operators as a benchmark, we believe current valuations of incumbents do offer value compared to the cost of nationwide rollout. However, worsening business fundamentals and regulatory headwinds would limit any material upside from current levels. On our revised estimates, Bharti/ RCOM/ Idea trade at 8.2x/ 8.8x/11.1x FY11E EV/ EBITDA. Maintain Underperformer.

❑ Cutting FY11 earnings estimates significantly

To factor in the aggressive pricing war in Q3FY10, we lower our FY11 wireless ARPU estimates by 2-9% and we now expect operators to report wireless EBITDA/ min of Re0.11-0.13. Consequently, we have cut our consolidated revenue estimates for coverage universe by 2-6% and revised FY11 EPS estimate for Bharti/RCOM/Idea to Rs20.7/Rs12.5/ (Rs 0.5).

❑ Underperformance of telcos is set to continue

Current valuations appear inexpensive compared to the cost of a nationwide rollout, but we believe worsening wireless metrics and persistent ambiguity around regulatory developments would remain key overhangs on stock prices. Idea remains the most sensitive to pressure on wireless business as the operator is still in an expansionary mode. We have lowered our 12-month price target for Bharti/RCOM/Idea by 4-11% to Rs 330/Rs 188/Rs 54 respectively and believe telcos would continue to underperform the broader indices.

Exhibit 9: Bharti Airtel – key financials

As on 31 March	FY07	FY08	FY09	FY10E	FY11E
Net sales (Rs m)	185,195	270,250	369,615	390,812	404,895
Adj. net profit (Rs m)	41,779	67,184	96,622	88,469	78,463
Shares in issue (m)	3,792	3,796	3,796	3,797	3,797
Adj. EPS (Rs)	11.0	17.7	25.5	23.3	20.7
% change	75.7	60.6	43.7	(8.5)	(11.3)
PE (x)	28.8	17.9	12.5	13.6	15.4
Price/ Book (x)	8.8	5.3	3.8	3.0	2.6
EV/ EBITDA (x)	16.7	11.0	8.5	8.1	8.1
RoE (%)	36.3	37.0	35.8	24.8	18.0
RoCE (%)	27.9	28.3	26.4	20.0	15.0

Source: Company data, IDFC-SSKI Research

Exhibit 10: RCOM – key financials

As on 31 March	FY07	FY08	FY09	FY10E	FY11E
Net sales (Rs m)	144,683	190,678	229,485	234,649	253,867
Adj. net profit (Rs m)	31,990	49,776	45,175	32,087	25,793
Shares in issue (m)	2,044	2,064	2,064	2,064	2,064
Adj. EPS (Rs)	15.7	24.2	21.9	15.5	12.5
% change	n/a	54.8	(9.7)	(29.0)	(19.6)
PE (x)	12.2	7.9	8.8	12.3	15.3
Price/ Book (x)	1.9	1.4	1.0	1.0	0.9
EV/ EBITDA (x)	7.2	6.3	6.8	7.9	8.4
RoE (%)	31.4	20.5	13.7	8.2	6.2
RoCE (%)	18.1	12.6	9.4	7.4	6.9

Source: Company data, IDFC-SSKI Research

Exhibit 11: Idea Cellular – key financials

As on 31 March	FY07	FY08	FY09	FY10E	FY11E
Net sales (Rs m)	43,664	67,375	101,544	116,881	126,467
Adj. net profit (Rs m)	5,022	10,423	8,816	5,592	-1,700
Shares in issue (m)	2,593	2,635	3,100	3,100	3,100
Adj. EPS (Rs)	2.2	4.0	3.0	1.8	(0.5)
% change	132.9	81.6	(24.0)	(40.1)	(130.4)
PE (x)	27.2	15.0	19.7	32.9	n/a
Price/ Book (x)	4.7	4.4	1.3	1.3	1.3
EV/ EBITDA (x)	11.4	9.5	7.5	9.3	10.3
RoE (%)	28.6	32.5	10.5	4.1	(1.2)
RoCE (%)	13.2	15.7	8.8	4.4	2.2

Source: Company data, IDFC-SSKI Research

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