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Industry View  
Cautious

## India Telecommunications Correction: Start of End to Glory Days

### What's Changed

Industry View: India

Telecommunications

**In-Line to Cautious**

**We are downgrading our industry view from In-line to Cautious.** We expect the tariff wars to lead to lower than expected Average Revenues per Minute (ARPM). We estimate a fall of a further 31% in tariffs to Rs0.45 by F2011 even though they are among the lowest in the world. Minutes of usage (MOU) in India are among the highest in the world and so demand elasticity to lower tariffs may be low. Penetration levels in India are at 30%, with Metros at over 95%. We forecast 31% CAGR for subscriber growth over F2008-F2011, almost half the growth rate of the past three years, bringing ARPU 40% lower. Two regulatory risks exist – overbidding for 3G license fee and possible cut in termination rates.

**Reducing RCOM to Underweight** - We are cutting F2010/11 profit estimates by 20-30% largely due to pressure in its wireless and global business. RCOM has a huge depreciation and interest burden, which it would have to incur through the income statement post its GSM launch; so far it is being capitalized. This would lead to a cut in profit in F2010E. We reduce our price target to Rs132, factoring in our lower estimates. Net debt stands at US\$3.8bn, the highest in the industry.

**Lowering Idea to Underweight** – We are cutting our F2010/11 cash profit estimate (PAT+ Depreciation) by 7-16% due to lower ARPU and margin pressure. As a pure wireless player, Idea is hurt the most in tariff wars.

**We maintain our Overweight rating on Bharti, but are lowering** net profit estimates for F2010/11 by 8% and 13%, respectively. Bharti's strong balance sheet, integrated strategy, size and free cash flow status give it an edge over peers. Our key concern for Bharti is that it seems over-owned and growth is slowing. We now expect 14-15% growth in F2009-11E EPS.

### What's Changed

Company	PT Chg	Rating Chg	PT Chg (%)	% from current levels
Bharti (BRTI.BO, Rs 633.9, OW)	Rs950 To Rs758	No Change	-20	19%
RCOM (RLCM.BO, Rs 170.2, UW)	Rs218 To Rs132	EW to UW	-39	-19%
Idea (IDEA.BO, Rs 47.0, UW)	Rs54 To Rs37	EW to UW	-31	-16%

Closing prices as of Jan 30, 2009

### Companies Featured

Company	Rating
Bharti Airtel Ltd. (BRTI.BO, TP- Rs758 )	Overweight
Reliance Communications Ltd. (RLCM.BO, TP- Rs132 )	Underweight
Idea Cellular Ltd. (IDEA.BO, TP- Rs37 )	Underweight

Source: Morgan Stanley Research

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*Company Analysis*

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## Investment Case

We have made corrections to our ModelWare EPS figures on page 12 in the Bharti: Financial Summary section of this note. This note was originally published on February 2, 2009 and is being republished on February 9, 2009. Pricing data and disclosures reflect original publication date. To receive an electronic copy of the original version of this publication, please send an e-mail to [Equity\\_Research\\_Publishing@morganstanley.com](mailto:Equity_Research_Publishing@morganstanley.com) with the publication title and date.

### Key Points

- Tariffs to fall a further 31% by F2011E to Rs0.45 even though they are among the lowest in the world.
- We see overbidding for a 3G license fee and a possible cut in termination rates as key regulatory risks in the next six months.
- Maintain Overweight on Bharti, downgrade RCOM and Idea to Underweight largely because of pressure in wireless business.

## Summary & Conclusions

We downgrade our India Telecoms industry view from In-line to Cautious on increased competition in the country. The following considerations underpin our Cautious view:

1. Tariffs to fall a further 31% by F2011E from Rs0.65 to Rs0.45 even though they are among the lowest in the world.
2. Minutes of usage in India are approximately 440 minutes and are among the highest in the world. Lower tariffs may, therefore, not lead to higher demand elasticity, as was the case historically during tariff cuts (Exhibit 6).
3. Though we forecast India will add almost 107mn subscribers each year in F2010 and F2011E to reach 581mn, **the growth rate is half of that for the past three years and ARPUs are likely to be 40% lower.** Incremental returns will probably also be significantly lower. With major CDMA operators such as RCOM and Tata Teleservices now focusing on GSM technology, we have reduced our CDMA subscriber estimate for the country by 20% long term and increased our GSM subscriber estimate by 5-6%, with overall subs largely negating each other (Exhibit 1).
4. **We see two regulatory risks in the next six months:** These are overbidding for a 3G license fee and a possible cut in termination rates. Both could significantly hurt the balance sheet of operators. We assume 3G auction fee capex of US\$750mn in our estimates for each operator. If termination rates fall from Rs0.3 per minute to Rs0.2, we would expect a 6% drop in overall ARPM. Sensitivity of ARPM to profitability is shown in Exhibit 11.
5. **We reduce our rating on RCOM to Underweight -** We are lowering our F2009/10/11 EBITDA estimates by 4%, 13% and 13% and our F2010/11 net profit estimates by 20-30% largely due to pressure in the wireless and global business. RCOM has a huge depreciation and interest burden, which it would have to incur through the income statement post its GSM launch; so far it is being capitalized. This would lead to an absolute reduction in profits in F2010E. We are cutting our price target to Rs132/share, factoring in the drop in our estimates. Net debt stands at US\$3.8bn, the highest in the industry. We estimate net debt to peak in F2011E at US\$6.3bn.
6. **We lower our rating on Idea to Underweight.** As a pure wireless player, Idea gets hurt the most during tariff wars. We are reducing our F2010/11E cash profit estimates (PAT+ depreciation) by 7-16% due to lower ARPU and margin pressure. Though we are raising our subscriber additions for Idea, the lower ARPU and narrower EBITDA margins lead to lower returns, reducing our DCF and, hence, our target price to Rs37/share.
7. **We maintain our Overweight rating on Bharti but we are lowering our net profit estimates for F2010/11 by 8% and 13%, respectively.** Our key concern on Bharti is that it seems over-owned and growth is slowing. We now expect 14-15% CAGR in F2009-11E earnings. Our revised target price based on our revised earnings estimate is Rs758/share.
8. **Our cash flow analysis** shown in Exhibit 4 suggests RCOM and Idea will have peak debt in F2011 and F2012 whereas Bharti's debt should peak in F2009E. In addition, RCOM and Idea are likely to take a further 4-6 years to lower their debt levels to reach Bharti's current debt level – this is the basis on which we reiterate our more positive view on Bharti over RCOM and Idea despite valuations.

### Why do We Still Have an Overweight Rating on Bharti?

- a) We estimate the company will invest a cumulative US\$7.6bn over F2009-2011E and should be the first company in the Indian wireless space to turn free cash flow (FCF) positive for an entire year in F2010E.
- b) We have raised our earnings forecasts (seven times) since F2007, and this is our first earnings cut over this period.
- c) Bharti has non-wireless EBITDA growth of 47% during F08-11E and the largest passive infrastructure base in the country of close to 60,000 towers, which it can share with new operators.
- d) Though our estimates assume a net adds market share of 19% by F2011, as against 26% in F3Q09, its **revenue market share** is an impressive 31%, as shown in Exhibit 19.
- e) Valuations look attractive: Bharti trades at 14x and 12.1x our F2009 and F2010 EPS estimates, respectively, close to its absolute and relative lows historically, as shown in Exhibit 13.

**Our key concerns re Bharti** are: 1) It looks over-owned; during the quarter ended December 2008, the FII positions in Bharti rose 150bps QoQ and they now account for 8.4% of the average FII portfolio, as shown in Exhibits 9 and 10. 2) Growth is slowing. Thus, we now expect 14-15% earnings CAGR for F2009-11E.

### Can We Position Bharti in an Asian Portfolio?

Within Asian telcos, our team's top picks excluding Indian stocks are:

- 1) Stocks with high and sustainable dividend yields such as Taiwan telecom company, FET (OW, NT\$32.30), StarHub (OW, S\$2.04), Telekom Malaysia (OW, RM 3.18)
- 2) Stocks with an improving competitive environment/earnings momentum such as Korean telcoms, particularly SK Telecom (OW, W29,000).
- 3) In the growth basket, our preferred pick is PT Telkom (OW, IDR6300) as Indonesia is recovering from a price war and Telkomsel's strong balance sheet will be an advantage for the company as its competitors struggle with capex financing.

Comparing Bharti to the above, we think it is arguably the strongest growth story in a deteriorating landscape, with a robust balance sheet that is turning FCF positive and earning superior returns: 21% Return on Equity (ROE) and 22% Return On Assets (ROA) based on F2011E earnings i.e. at the top end for the competition.

The company trades at a marginal premium to Chinese telcos on a P/E basis but looks better when adjusted for EPS growth since Chinese telcos are likely to show either low or negative growth over the next two years.

To summarize, we believe that Bharti remains a solid medium to long-term growth story but in the short term we think negative news flow on the competitive front may prevent the stock from outperforming the rest of the regional telecoms sector.

### The India Growth Story to Continue...

**We expect Indian wireless subscribers to grow 26% p.a. for the next two years to reach a wireless subscriber base of 581 million by F2011E.** More players, increased spectrum, higher capex spend by operators, and an increase in active and passive sharing should all lead to high subscriber growth.

Early last year, the Indian government provided all-India licenses to five new players as well as start-up licenses to existing operators wanting a pan-India presence because they aimed to provide services under dual technology. These licenses have so far released over 450 MHz of pair band spectrum (4.4MHz per operator per circle). Our recent discussions with the Department of Telecommunications (DoT) as well as THE Telecom Regulatory Authority (TRAI) of India suggest 3G spectrum is on the way. Higher spectrum for the operators means strong subscriber growth is likely ahead. Increased capex spend by virtually every player should result in a peak in capex spend by the industry in F2009E at US\$15bn. Thereafter, we expect capex/sales for the bigger existing players to begin declining, as shown in Exhibit 12.

With the industry nearly tripling its towers in the next three years and tower sharing on the rise, we believe telecom coverage for the country could reach 90% by F2011, from about 55% currently.

### ...However at a slower rate than in the past

Our penetration level estimate of 581mn subscribers by F2011 implies a penetration rate of 49%, similar to the

penetration level of China today, and among the lowest in the world. Though we forecast India would add almost 107mn subscribers each year in F2010 and F2011 to reach 581mn, the expected growth rate is half of that for the last three years and ARPU would be 40% lower. Incremental returns would be significantly lower.

Our case study suggests that new entrants would take even longer than our earlier estimates of breaking even in 4-5 years and earning profits in 7-8 years.

## Tariff Wars Are Getting Worse than Expected

In the past month, we have seen the launch of two schemes, which we think could be disruptive for the industry and **have increased our concerns about the profitability of the entire Indian telecom sector**. We believe that the operators launching in new circles **are focused more on subscribers than revenues** because once they reach a specific subscriber base (for GSM - 500k for metros, 800k for A and B category circles and 600k for C category circles), they become eligible for additional 1.8MHz spectrum.

RCOM's GSM tariffs for its Mumbai launch are significantly lower than those of existing operators, as shown in Exhibit 14, and we expect the company to make EBITDA losses purely on these new subscribers. Idea currently has 325k subs in Mumbai and recently launched a new tariff in Mumbai that is about 31% lower in terms of ARPM than Bharti's and generating a much lower EBITDA. The company has, however, added caveats that the offers and tariff will be extended for between 2 and 6 months.

RCOM, within a month of the launch of the above scheme, has partly modified its scheme to make it a bit more revenue generating, as shown in Exhibit 14. However, these tariffs are still almost one-fourth of the existing tariffs.

## Lower Tariffs Mean Lower Profits and Returns

Earlier Bharti's returns grew handsomely despite tariff cuts due to the increase in subscriber base and growing MOUs, as shown in Exhibit 16. However, as Exhibit 14 depicts, we estimate the new tariffs to generate lower EBITDA and ROCE. Based on our revised earnings estimates, we believe that the days of all-time high returns for the Indian telecom sector, including Bharti, is now part of history. However, we still expect Bharti to earn much higher returns than its cost of capital and other players in the industry, as shown in Exhibit 15.

Exhibit 1

### India Telecoms: Changes in Industry Assumptions

	F2009E	F2010E	F2011E
<b>Total Subs (Million)</b>			
New	408.0	520.6	621.5
Old	408.0	511.5	599.1
Change	0.0%	1.8%	3.7%
<b>Wireline Subs (Million)</b>			
New	39.8	40.1	40.3
Old	39.8	40.1	40.3
Change	0.0%	0.0%	0.0%
<b>Wireless Subs (Million)</b>			
New	368.2	480.5	581.2
Old	368.2	471.4	558.8
Change	0.0%	1.9%	4.0%
<b>Wireless Subs Net Adds (Million)</b>			
New	8.9	9.4	8.4
Old	8.9	8.6	7.3
Change	0.0%	8.8%	15.2%
<b>GSM Subs ('000)</b>			
New	276.2	380.0	475.0
Old	276.2	361.5	433.8
Change	0.0%	5.1%	9.5%
<b>CDMA Subs ('000)</b>			
New	92.0	100.5	106.1
Old	92.0	109.9	125.0
Change	0.0%	-8.6%	-15.1%
<b>GSM Net Adds per month</b>			
New	6.96	8.66	7.92
Old	6.96	7.11	6.02
Change	0.0%	21.7%	31.4%
<b>CDMA Net Adds per month</b>			
New	1.97	0.71	0.47
Old	1.97	1.49	1.26
Change	0.0%	-52.5%	-62.6%
<b>Industry Average ARPU</b>			
New	278	228	200
Old	281	255	241
Change	-1.0%	-10.7%	-16.8%
<b>Industry Average ARPM (Rs)</b>			
New	0.61	0.51	0.45
Old	0.60	0.55	0.52
Change	2.0%	-6.7%	-13.3%
<b>Industry Average ARPM (USD Cents)</b>			
New	1.33	0.99	0.86
Old	1.31	1.06	0.99
Change	1.9%	-6.5%	-13.2%
<b>Industry Average MOU</b>			
New	453	447	447
Old	468	468	468
Change	-3.2%	-4.6%	-4.6%

Source: Morgan Stanley Research

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Exhibit 2

## India Telecoms: Key Changes in Our Valuation Assumptions

	OLD	NEW	Change
Risk Free Rate	8.6%	6.0%	-260 bps
Terminal Growth Rate	3.0%	3.0%	0 bps
<b>Weighted Average Cost Of Capital</b>			
Bharti	11.9%	11.8%	-13 bps
RCOM	15.2%	15.2%	4 bps
Idea	13.1%	13.0%	-10 bps

Source: Company data, Morgan Stanley Research

Exhibit 3

## India Telecoms: New Weighted Average Cost of Capital Assumptions

	Bharti	RCOM	Idea
Risk Free Return (Rf)	6.0%	6.0%	6.0%
Market Premium (Rm)	6.0%	6.0%	6.0%
Assumed Beta	1.00	1.80	1.30
<b>Cost of Equity (Re)</b>	<b>6.0%</b>	<b>16.8%</b>	<b>13.8%</b>
Equity (%)	95.0%	70.0%	85.0%
Cost of Debt (Rd)	10.00%	15.0%	11.0%
Tax rate	22.5%	22.5%	22.5%
<b>After-tax cost of debt (Rd [1-t])</b>	<b>7.8%</b>	<b>11.6%</b>	<b>8.5%</b>
Debt (%)	5.0%	30.0%	15.0%
<b>WACC</b>	<b>11.8%</b>	<b>15.2%</b>	<b>13.0%</b>

Source: Company data, Morgan Stanley Research

Exhibit 4

## India Telecoms: RCOM and Idea Would Take 5-6 Years To Reach Bharti's Current Debt Levels

	F2009E	F2010E	F2011E	F2012E	F2013E
<b>Bharti</b>					
Operating Cash Flows less Capex	(8,017)	27,071	73,424	91,669	106,662
Gross Debt At Beginning of year	97,063	141,728	124,178	79,603	45,313
Gross Debt At End of year	141,728	124,178	79,603	45,313	27,524
Current Liabilities At Beginning of Year	134,787	146,836	139,103	139,359	147,101
Excess of Operating Cash Flows over Gross Debt	(105,080)	(114,656)	(50,754)	12,066	61,349
Excess of Operating Cash Flows over Gross Debt + Current Liabilities	(239,867)	(261,492)	(189,857)	(127,293)	(85,752)
<b>RCOM</b>					
Operating Cash Flows less Capex	(129,700)	(37,233)	10,799	53,667	77,420
Gross Debt At Beginning of year	258,217	312,766	394,607	406,360	366,269
Gross Debt At End of year	312,766	394,607	406,360	366,269	332,709
Current Liabilities At Beginning of Year	200,776	216,751	225,165	230,716	219,846
Excess of Operating Cash Flows over Gross Debt	(387,917)	(349,999)	(383,807)	(352,693)	(288,848)
Excess of Operating Cash Flows over Gross Debt + Current Liabilities	(588,694)	(566,750)	(608,972)	(583,409)	(508,695)
<b>Idea</b>					
Operating Cash Flows less Capex	(40,478)	(28,784)	(6,697)	5,703	23,255
Gross Debt At Beginning of year	65,154	103,811	113,970	134,240	149,567
Gross Debt At End of year	103,811	113,970	134,240	149,567	146,878
Current Liabilities At Beginning of Year	27,022	38,548	42,427	44,139	38,575
Excess of Operating Cash Flows over Gross Debt	(105,632)	(132,595)	(120,667)	(128,538)	(126,312)
Excess of Operating Cash Flows over Gross Debt + Current Liabilities	(132,654)	(171,143)	(163,094)	(172,676)	(164,886)

Source: Morgan Stanley Research

Exhibit 5

## Bharti & RCOM: Strong Growth in Non-Wireless Business Expected in F2008-11E

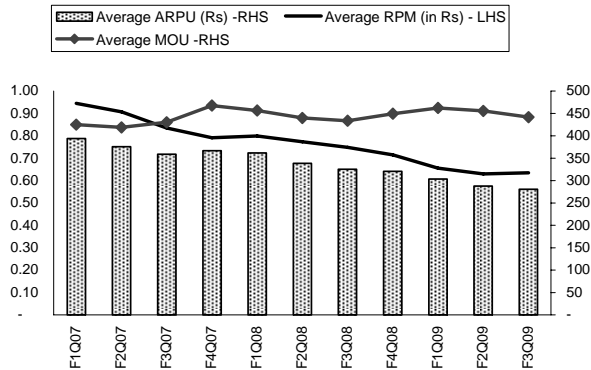
	CAGR F08-11E
<b>Bharti</b>	
Wireless EBITDA	4.7%
Non-Wireless EBITDA	46.6%
<b>RCOM</b>	
Wireless EBITDA	3.2%
Non-Wireless EBITDA	50.3%

Source: Morgan Stanley Research

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Exhibit 6

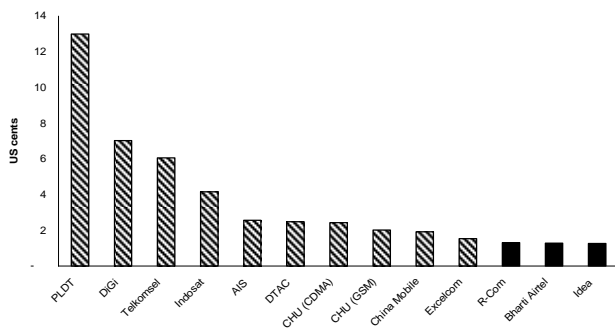
## India Telcos: Historical Movements in MOU, ARPU and ARPM



Source: Company data, Morgan Stanley Research

Exhibit 7

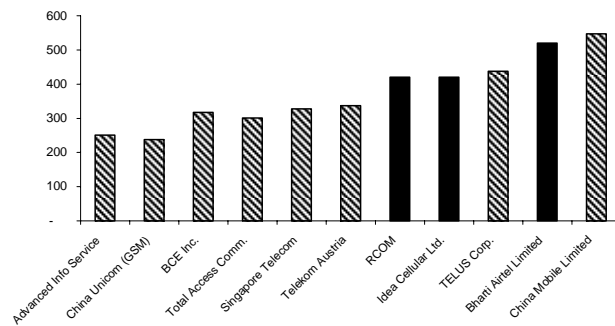
## India Telecoms: Lowest RPM Among Regional Telcos



Source: Company data, Morgan Stanley Research

Exhibit 8

## India Telecoms: One of the Highest MOU Among Regional Telcos



Source: Company data, Morgan Stanley Research

Exhibit 9

## FII Sector Positions: Financials, Telecoms, Energy and Materials Are the Big Calls

	Current Weight	MSCI Weight	Holding Size		Perf for the Quarter
			Dec-08	Sep-08	
Financials	31.9%	24.1%	780	680	-25.7%
Telecom	10.7%	3.1%	763	627	-27.5%
Consumer Discretionary	3.9%	3.2%	65	113	-27.2%
Industrials	8.2%	8.9%	(70)	(23)	-30.4%
Healthcare	3.2%	4.1%	(94)	(81)	-21.3%
Consumer Staples	6.3%	8.1%	(177)	(138)	-7.9%
Technology	11.9%	13.9%	(207)	(225)	-25.9%
Utilities	4.5%	6.8%	(237)	(186)	-14.0%
Materials	4.3%	7.1%	(275)	(202)	-36.7%
Energy	15.2%	20.6%	(546)	(566)	-35.6%

Source: BSE, NSE, MSCI, Morgan Stanley Research

Exhibit 10

## FIIs: Position Size in Top 20 Stocks

Position as at	Sep-08	Dec-08	Chg in Position	MSCI Weight	Stake Size	
					Dec-08	Sep-08
Reliance Industries	12.3%	10.5%	-1.7%	14.5%	-4.0%	-4.4%
Infosys Technologies	8.5%	9.4%	0.9%	9.2%	0.2%	0.2%
ICICI Bank	7.9%	9.0%	1.0%	6.3%	2.7%	2.6%
Bharti	6.9%	8.4%	1.5%	NA	8.4%	6.9%
HDFC	7.6%	7.0%	-0.5%	5.6%	1.4%	1.7%
HDFC Bank	4.9%	5.5%	0.5%	5.0%	0.5%	0.6%
SBI	3.5%	3.4%	-0.1%	1.5%	1.9%	2.3%
Bharat Heavy Electricals	2.7%	3.0%	0.4%	2.9%	0.1%	0.2%
I T C	2.1%	2.6%	0.6%	3.4%	-0.7%	-0.6%
Hindustan Unilever	1.6%	2.3%	0.7%	3.9%	-1.6%	-1.3%
ONGC	2.9%	2.3%	-0.6%	3.3%	-1.1%	-0.8%
Larsen & Toubro	2.7%	2.2%	-0.5%	2.8%	-0.6%	-0.6%
NTPC	1.2%	1.7%	0.5%	2.7%	-1.0%	-0.6%
AXIS Bank	1.7%	1.7%	0.0%	1.8%	-0.1%	-0.2%
TCS	1.5%	1.4%	-0.1%	1.7%	-0.3%	-0.2%
Reliance Communications Ltd.	1.7%	1.4%	-0.3%	2.5%	-1.2%	-1.0%
Sun Pharmaceuticals	1.3%	1.2%	-0.1%	1.2%	0.0%	0.1%
Gas Authority	1.1%	1.2%	0.0%	1.4%	-0.2%	-0.2%
Hero Honda	0.8%	1.1%	0.3%	1.2%	0.0%	-0.1%
IDFC	0.8%	1.0%	0.3%	0.8%	0.2%	0.2%

Source: BSE, NSE, MSCI, Morgan Stanley Research

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Exhibit 11

## India Telecoms: EPS Sensitivity to ARPM

	F2009E	F2010E	F2011E
<b>(Assuming No Elasticity)</b>			
10% lower ARPMs			
RCOM	-11%	-11%	-12%
Bharti	-9%	-10%	-8%
Idea	-19%	-28%	-23%
20% lower ARPMs			
RCOM	-20%	-23%	-24%
Bharti	-20%	-18%	-19%
Idea	-44%	-59%	-48%
<b>(Assuming 5% Higher Subs)</b>			
10% lower ARPMs			
RCOM	-8%	-7%	-9%
Bharti	-6%	-7%	-6%
Idea	-16%	-22%	-21%
20% lower ARPMs			
RCOM	-15%	-17%	-17%
Bharti	-15%	-13%	-14%
Idea	-32%	-46%	-42%

Source: Morgan Stanley Research

Exhibit 12

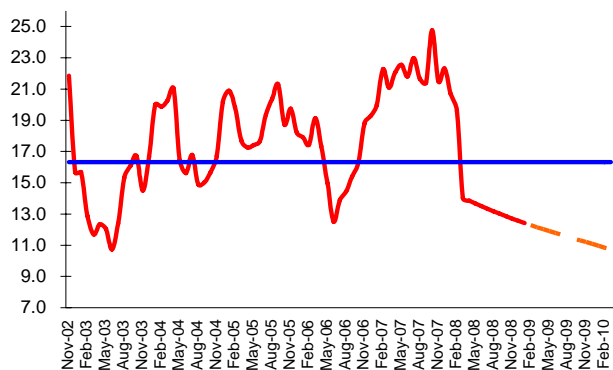
## India Telecoms: Capex To Sales To Decline

	F2007	F2008	F2009E	F2010E	F2011E
Bharti	49%	51%	40%	31%	24%
RCOM	41%	117%	94%	51%	32%
Idea	60%	71%	63%	44%	35%

Source: Company data, Morgan Stanley Research E = Morgan Stanley Research Estimates  
Note: Capex as % of Net Sales

Exhibit 13

## Bharti: Forward P/E Trending Toward All-Time Low



Source: Company data, Morgan Stanley Research

Exhibit 14

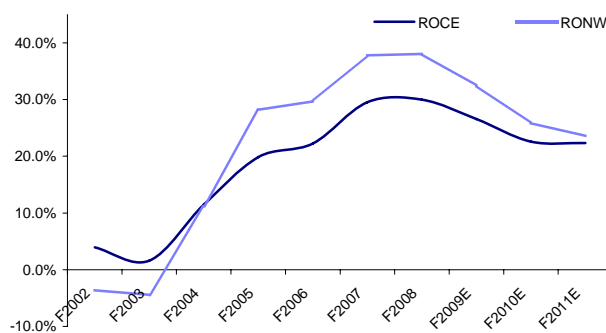
## India Telecoms: New Schemes Yield Radically Different Net Retention Per Minute

	Idea	Bharti	RCOM Current Scheme	RCOM Intro Scheme	Bharti
SIM Card Charge (Rs.)	25	99	49	25	99
Entry into Lifetime scheme (Rs)	-	99	-	-	295
Months of amortization	18	18	18	18	18
Monthly ARPU contribution (Rs.)	-	6	-	-	16
<b>Coupon value</b>	<b>200</b>	<b>200</b>	<b>50</b>	-	<b>200</b>
Less: Service Charge	22	22	5	-	22
ARPU from Consumer	178	178	45	-	178
Plus: Termination revenue	45	45	45	45	45
ARPU including incoming termination revenue	<b>223</b>	<b>229</b>	<b>90</b>	<b>45</b>	<b>240</b>
<b>Admin Charge (% of Card Denomination)</b>	<b>1.0%</b>	<b>1.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>1.0%</b>
Admin Charges	2	2	-	-	2
Available Air Time	294	176	45	-	176
<b>Tariff (Rs/Local call)</b>	<b>0.60</b>	<b>1.00</b>	<b>1.00</b>	<b>1.00</b>	<b>1.00</b>
<b>Tariff (Rs/STD call)</b>	<b>1.00</b>	<b>1.50</b>	<b>1.50</b>	<b>1.50</b>	<b>1.50</b>
Termination Rs/minute	0.3	0.3	0.3	0.3	0.3
<b>Costs Per subscriber</b>					
Commission	20	20	5	5.0	20
Interconnect	70	42	83	72.0	42
License fee	18	22	1	(3.2)	24
Network Cost	13	14	5	2.7	14
Salary	18	18	7	3.6	19
Other costs	16	16	6	3.2	17
<b>Total Costs</b>	<b>156</b>	<b>133</b>	<b>107</b>	<b>83.2</b>	<b>136</b>
<b>EBITDA per subscriber</b>	<b>68</b>	<b>96</b>	<b>(18)</b>	<b>(38.2)</b>	<b>103</b>
<b>EBITDA margin</b>	<b>30%</b>	<b>42%</b>	<b>-20%</b>	<b>-85%</b>	<b>43%</b>
Outgoing minutes	294	176	345	300	176
Incoming minutes	150	150	150	150	150
Incoming/Outgoing Ratio	0.5	0.9	0.4	0.5	0.9
<b>Total Minutes</b>	<b>444</b>	<b>326</b>	<b>495</b>	<b>450</b>	<b>326</b>
<b>NR per minute (I+O) (Rs)</b>	<b>0.50</b>	<b>0.70</b>	<b>0.18</b>	<b>0.10</b>	<b>0.73</b>
NR per outgoing minute (Rs)	0.61	1.04	0.13	0.00	1.10
NR per minute (I+O) (Cents)	1.0	1.5	0.4	0.2	1.5
NR per outgoing minute (Cents)	1.3	2.2	0.3	0.0	2.3
<b>Capex US\$</b>	<b>120</b>	<b>75</b>	<b>120</b>	<b>75</b>	<b>79</b>
<b>ROCE</b>	<b>14%</b>	<b>31%</b>	<b>-4%</b>	<b>-12%</b>	<b>31%</b>

Source: Company data, Morgan Stanley Research

Exhibit 15

## Bharti: Expected to Generate Higher Returns than Industry

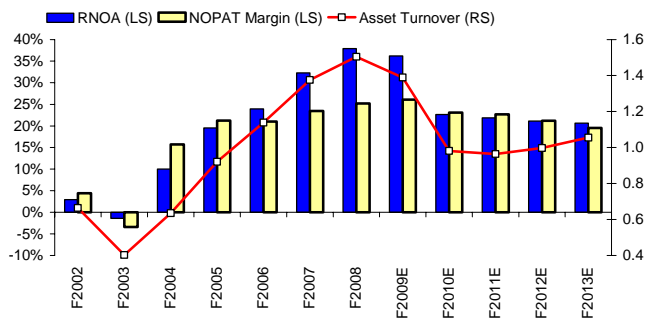


Source: Company data, E = Morgan Stanley Research Estimates



Exhibit 16

## Bharti: High Returns in the Past



Source: Company data, Morgan Stanley Research

Exhibit 17

## India Telcos: Recent Launches Allow Operators to Gain Wireless Market Share Not Necessarily Revenue Market Share

Operator	Circle	Month Of Launch	Months Since Launch	Wireless Market Share	Wireless Net Adds Market Share (last 6 month avg)	Revenue Market Share as at end of Sep 08	Gap Between Revenue and Subs Market Share
Idea	Rajasthan	Oct-06	27	5.8%	5%	5.3%	-0.5%
Idea	HP	Sep-06	28	4.1%	5%	4.9%	0.7%
Idea	UP (E)	Nov-06	26	7.0%	8%	6.7%	-0.3%
Aircel	Kolkata	May-08	8	3.8%	15%	0.7%	-3.1%
Idea	Mumbai	Aug-08	5	1.9%	12%	0.3%	-1.6%
Vodafone	Orissa	Aug-08	5	2.4%	10%	0.5%	-2.0%
Vodafone	Assam	Sep-08	4	1.3%	11%	0.6%	-0.6%
Vodafone	North East	Sep-08	4	1.6%	10%	0.5%	-1.1%

Source: COAI, AUSPI, TRAI, Company data, Morgan Stanley Research

Exhibit 18

## Bharti: Operational Performance since New Launches

	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Average during May to Dec-08
<b>Kolkata</b>									
<i>Wireless Market Share</i>									
Bharti	22.4%	22.0%	21.7%	21.8%	21.8%	21.8%	21.6%	22.1%	21.9%
Aircel	0.7%	1.3%	1.6%	2.1%	2.7%	3.2%	3.6%	3.8%	2.4%
<i>Wireless Net Adds Market Share</i>									
Bharti	7.2%	6.8%	14.1%	23.5%	22.1%	20.8%	15.5%	42.1%	19.0%
Aircel	23.7%	21.3%	13.9%	16.6%	16.6%	17.4%	16.8%	10.1%	17.0%
<b>Mumbai</b>									
<i>Wireless Market Share</i>									
Bharti	17.4%	17.3%	17.0%	16.7%	16.5%	16.5%	16.3%	16.0%	16.7%
Idea	0.0%	0.0%	0.0%	0.1%	0.6%	1.1%	1.4%	1.9%	0.6%
<i>Wireless Net Adds Market Share</i>									
Bharti	8.9%	10.8%	6.5%	5.9%	12.1%	16.1%	5.2%	4.4%	8.7%
Idea	0.0%	0.0%	0.0%	4.1%	16.3%	14.8%	17.7%	21.4%	9.3%
<b>Overall India</b>									
<i>Wireless Market Share</i>									
Bharti	24.0%	24.2%	24.3%	24.5%	24.6%	24.6%	24.7%	24.7%	24.5%
<i>Wireless Net Adds Market Share</i>									
Bharti	28.5%	28.6%	29.2%	29.4%	26.9%	26.1%	26.3%	25.2%	27.5%

Source: COAI, AUSPI, TRAI, Company data, Morgan Stanley Research

Exhibit 19

## Bharti: Focused On Revenues

	Subscriber Market Share As at End of Dec08	Gross Revenues (Rs mn) For Quarter ending Sep08	Wireless Market Share	Revenue Market Share
Bharti	85,651	80,093	25%	31%
RCOM	61,345	44,275	18%	17%
BSNL	46,228	25,611	13%	10%
Vodafone	60,933	48,047	18%	19%
Idea	34,211	23,281	10%	9%
Tata	31,764	20,300	9%	8%
Aircel	16,076	7,661	5%	3%
Spice	3,802	3,103	1%	1%
MTNL	4,188	2,103	1%	1%
BPL	1,948	169	1%	0%
HFCL	382	475	0%	0%
Shyam	366	249	0%	0%
<b>Total</b>	<b>346,894</b>	<b>255,367</b>	<b>100%</b>	<b>100%</b>

Source: COAI, AUSPI, TRAI, Company data, Morgan Stanley Research

February 2, 2009

India Telecommunications

Exhibit 20

## Indian Telecoms: F3Q09 Snapshot

<i>Rs mn</i>	<i>F3Q09</i>	<i>F3Q08</i>	<i>YoY Change</i>	<i>F2Q09</i>	<i>QoQ Change</i>
<i>(period ending)</i>	<i>31-Dec-08</i>	<i>31-Dec-07</i>	<i>%</i>	<i>30-Sep-08</i>	<i>%</i>
India wireless subs ('000)	346,894	233,624	48.5%	315,312	10.0%
India Wireless Net Adds (total- '000)	31,582	24,535	28.7%	28,444	11.0%
<b>REVENUES</b>	<b>221,221</b>	<b>154,758</b>	<b>42.9%</b>	<b>207,729</b>	<b>6.5%</b>
Bharti	123,289	78,703	56.7%	116,097	6.2%
Wireless	79,392	56,105	41.5%	72,843	9.0%
Non-Wireless	43,897	22,598	94.3%	43,254	1.5%
RCOM	70,627	58,974	19.8%	68,640	2.9%
Wireless	44,119	39,567	11.5%	43,356	1.8%
Non-Wireless	26,508	19,407	36.6%	25,284	4.8%
Idea	27,305	17,081	59.9%	22,992	18.8%
<b>EBITDA</b>	<b>69,944</b>	<b>56,375</b>	<b>24.1%</b>	<b>66,033</b>	<b>5.9%</b>
Bharti	39,450	29,634	33.1%	36,993	6.6%
Wireless	24,963	22,887	9.1%	22,009	13.4%
Non-Wireless	14,487	6,747	114.7%	14,984	-3.3%
RCOM	23,525	21,065	11.7%	23,016	2.2%
Wireless	16,616	15,819	5.0%	16,859	-1.4%
Non-Wireless	6,909	5,246	31.7%	6,157	12.2%
Idea	6,969	5,676	22.8%	6,024	15.7%
<b>EBITDA Margins (% of Net Revenues)</b>	<b>35.6%</b>	<b>39.7%</b>	<b>-4.1%</b>	<b>36.0%</b>	<b>-0.4%</b>
Bharti	41.0%	42.6%	-1.6%	41.0%	-0.1%
RCOM	40.2%	43.2%	-3.0%	40.8%	-0.6%
Idea	25.5%	33.2%	-7.7%	26.2%	-0.7%
<b>Net Profit After Extraordinary and Minority Interest</b>	<b>37,891</b>	<b>33,325</b>	<b>13.7%</b>	<b>37,212</b>	<b>1.8%</b>
Bharti	21,593	17,224	25.4%	20,463	5.5%
RCOM	14,104	13,729	2.7%	15,308	-7.9%
Idea	2,195	2,372	-7.5%	1,441	52.3%
<b>ARPU</b>	<b>280</b>	<b>325</b>	<b>-13.8%</b>	<b>288</b>	<b>-2.5%</b>
Bharti	324	358	-9.5%	331	-2.1%
RCOM	251	339	-26.0%	271	-7.4%
Idea	266	279	-4.7%	261	1.9%
<b>MOU</b>	<b>442</b>	<b>433</b>	<b>1.9%</b>	<b>455</b>	<b>-3.0%</b>
Bharti	505	474	6.6%	526	-3.9%
RCOM	410	449	-8.7%	423	-3.1%
Idea	410	377	8.8%	417	-1.7%
<b>ARPM</b>	<b>0.63</b>	<b>0.75</b>	<b>-15.3%</b>	<b>0.63</b>	<b>0.7%</b>
Bharti	0.64	0.76	-15.1%	0.63	1.9%
RCOM	0.61	0.75	-18.4%	0.64	-4.4%
Idea	0.65	0.74	-12.3%	0.62	4.6%
<b>Capex % of Gross Sales</b>	<b>55%</b>	<b>99%</b>	<b>-44.4%</b>	<b>57%</b>	<b>-2.4%</b>
Bharti	40%	48%	-7.6%	35%	4.9%
RCOM	75%	180%	-105.2%	84%	-9.7%
Idea	50%	70%	-20.4%	52%	-2.4%

Source: Company data, Morgan Stanley Research

## Risk-Reward Snapshot: Bharti (BRTI.BO, Rs633.85, OW, PT Rs758)

### Favorable Risk-Reward: Well-positioned for Growth



<b>Price Target Rs758</b>	Derived from Base-Case scenario.	
<b>Bull Case Rs915</b>	At par to bull case SOTP	<b>Less intense competition:</b> 1) 10% p.a. decline in ARPU for F2009-11E; 2) long-term increase in gross EBITDA margins by 220bps to 35% by F2011E and 3) Wireless market share increases by 120bps to 24.5% by F2011E.
<b>Base Case Rs758</b>	At par to base case SOTP	<b>Strong operational performance:</b> Annual decline of 17% in ARPU for F2009-11E as company expands in rural India; overall gross EBITDA margins to stabilize at 32.8% by F2011; WACC of 11.8%.
<b>Bear Case Rs398</b>	At par to bear case SOTP	<b>Intensifying competition affects operations:</b> Increasing competition leads to a 25% annual decline in ARPU during F09-11E; Gross EBITDA margins decline by 280bps to 30% by F2011E; Wireless market share falls by 130bps to 22% by F2011E. We have modeled scenarios based on what we consider the key drivers of the stock's value over the next 12 months. There is, however, potential for outright downside in the stock price due to other factors that we consider to be relatively unlikely.

### Investment Thesis

- India is the world's fastest-growing telecom market.
- Bharti is India's leading wireless operator and has increased market share by 108 bps in the past 12 months.
- Continued acceleration in net adds is leading to strong quarterly performances.

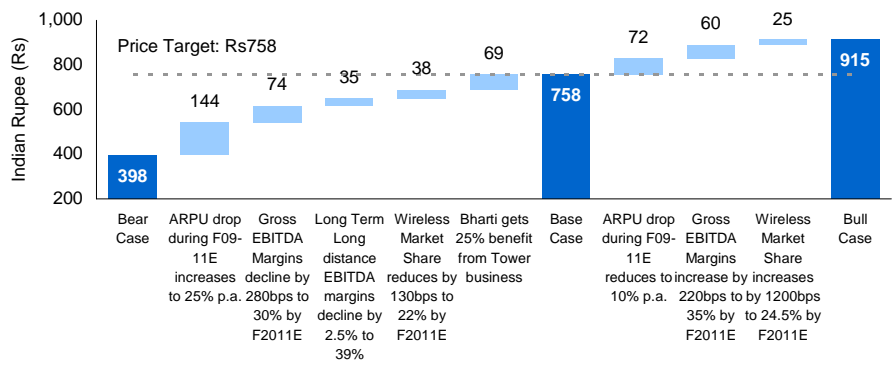
### Key Value Drivers

- Bharti should turn FCF positive in F2010.
- Improvement in EBITDA margins, driven by economies of scale and improvement in wireless business margins.
- Strong net adds market share.
- Tower business could increase earnings 5-10% in the medium term on consolidation.

### Potential Catalysts

- Unlocking value in the tower business through listing, strategic sale.
- We estimate a 100bps EBITDA margin improvement for Bharti due to lower license fees once it meets the government's 95% coverage criteria.

### Bear to Bull: ARPU/EBITDA Margins/Wireless Market Share Are Key



### Risks

- Higher than expected fall in tariffs due to aggressive pricing by new operators to gain subscribers.
- Competition from regional operators intensifies, leading some to exit the business or consolidate.
- The CDMA operators resume major handset subsidies.
- Regulatory uncertainty regarding spectrum and termination charges.

Source: Morgan Stanley, FactSet

## Bharti: Financial Summary

### Income Statement

Rs mn (Year ending March 31)	F2008	F2009E	F2010E	F2011E
<b>Revenues</b>				
<b>Gross Revenues</b>	<b>311,186</b>	<b>472,948</b>	<b>508,534</b>	<b>571,212</b>
Eliminations	(40,936)	(108,141)	(116,045)	(123,306)
<b>Net Revenues</b>	<b>270,250</b>	<b>364,807</b>	<b>392,489</b>	<b>447,905</b>
Access / Interconnect	40,002	5,414	5,488	7,574
License Fees	27,303	41,835	44,786	48,501
Network Charges	25,056	76,183	82,779	102,769
Employee Costs	17,428	32,056	34,745	38,723
Other Operating Expenses	46,747	58,607	61,352	63,217
Total Operating Costs	156,536	214,096	229,149	260,782
<b>EBITDA</b>	<b>113,715</b>	<b>150,711</b>	<b>163,340</b>	<b>187,123</b>
Depreciation	35,754	45,434	55,116	65,867
Amortization	1,506	1,506	1,506	1,506
Non Operating Income	2,423	1,538	6,106	6,434
Interest Expenses	2,341	10,240	6,525	5,407
Pre-operating Costs / Loss of JVs	(1)	900	-	-
<b>Profit before Tax</b>	<b>76,537</b>	<b>94,170</b>	<b>106,298</b>	<b>120,777</b>
Income Tax	8,378	7,856	16,056	18,323
<b>Profit after Tax</b>	<b>68,159</b>	<b>86,315</b>	<b>90,242</b>	<b>102,454</b>
Minority Interest	1,151	1,839	3,032	4,578
Share in Associates	-	1,451	12,106	14,498
<b>Consolidated Net Profit</b>	<b>67,008</b>	<b>85,927</b>	<b>99,316</b>	<b>112,374</b>

### Balance Sheet

Rs mn (Year ending March 31)	F2008	F2009E	F2010E	F2011E
<b>SOURCES</b>				
Share Capital	18,981	18,981	18,981	18,981
Share Premium	77,745	77,745	77,745	77,745
Reserves & Surplus	125,968	212,283	292,593	383,810
<b>Shareholders' Funds</b>	<b>222,587</b>	<b>309,009</b>	<b>389,319</b>	<b>480,536</b>
Deferred Tax Liability	2,531	31	3,058	6,452
Loan Funds	97,063	141,728	124,178	79,603
Minority Interest	3,013	4,852	7,883	12,461
Other Non-Current Liabilities	9,894	13,939	19,001	20,626
<b>TOTAL LIABILITIES</b>	<b>335,088</b>	<b>469,558</b>	<b>543,440</b>	<b>599,678</b>
<b>APPLICATIONS</b>				
Net Block	275,951	382,134	454,845	499,480
Capital Work in Progress	37,456	30,795	25,817	23,778
<b>Net Fixed Assets</b>	<b>313,407</b>	<b>412,930</b>	<b>480,662</b>	<b>523,258</b>
Goodwill	27,043	27,043	27,043	27,043
License Fee	7,197	6,577	5,957	5,337
Other Intangibles, Non-Current Assets	11,048	41,871	40,985	40,099
Current Assets	111,070	127,865	127,788	143,192
Cash & Marketable Securities	55,006	55,698	56,857	75,264
Current Liabilities	134,787	146,836	139,103	139,359
<b>Net Current Assets</b>	<b>(23,717)</b>	<b>(18,971)</b>	<b>(11,315)</b>	<b>3,833</b>
<b>TOTAL ASSETS</b>	<b>335,086</b>	<b>469,558</b>	<b>543,440</b>	<b>599,678</b>

### Cash Flow Statement

Rs mn (Year ending March 31)	F2008	F2009E	F2010E	F2011E
<b>Operating Activities</b>				
Profit/(Loss) before tax	76,537	94,170	106,298	120,777
Depreciation	35,754	45,434	55,116	65,867
Amortization	1,506	1,506	1,506	1,506
Direct Taxes Paid	(8,414)	(10,356)	(13,029)	(14,930)
Changes in Working Capital	20,949	(4,054)	(6,497)	3,259
<b>Operating Cash Flows</b>	<b>131,377</b>	<b>136,940</b>	<b>149,920</b>	<b>181,887</b>
<b>Investing Activities</b>				
Purchase/(Sale) of Fixed Assets	138,557	144,956	122,848	108,463
Goodwill + Intangibles (Inc)/Dec	3,954	36,750	-	-
(Inc)/Dec of Non-Current Assets	5,041	(5,041)	-	-
<b>Investing Cash Flows</b>	<b>(147,478)</b>	<b>(176,665)</b>	<b>(122,848)</b>	<b>(108,463)</b>
<b>Financing Activities</b>				
Repayment of Long Term Debt	44,602	44,665	(17,549)	(44,575)
Change in Shareholders Equity	21,127	1,946	3,032	4,578
Change in Other Non-Current Liabilities	(2,456)	4,045	5,062	1,625
Dividends Paid	-	-	(8,489)	(9,605)
Dividend Tax	-	-	(1,443)	(1,632)
<b>Financing Cash Flows</b>	<b>60,954</b>	<b>40,416</b>	<b>(25,913)</b>	<b>(55,017)</b>
Net change in Cash & Cash Eqv	44,853	690	1,159	18,407
<b>Cash &amp; Marketable Securities</b>				
Beginning Cash balance	10,155	55,006	55,698	56,857
Ending Cash Balance	55,006	55,698	56,857	75,264

### Ratio Analysis

	F2008	F2009E	F2010E	F2011E
<b>Valuation</b>				
ModelWare EPS	35.3	45.3	52.3	59.2
Adj. EPS	35.3	45.3	52.3	59.2
Book Value	117.3	162.8	205.1	253.2
DPS	-	-	4.5	5.1
P/E	18.0	14.0	12.1	10.7
P/BV	5.4	3.9	3.1	2.5
Dividend Yield	0.0%	0.0%	0.7%	0.8%
EV/EBITDA	10.9	8.6	7.8	6.5
<b>Profitability</b>				
EBITDA Margin (Net Revenues)	42.1%	41.3%	41.6%	41.8%
EBITDA Margin (Gross Revenues)	36.5%	31.9%	32.1%	32.8%
Net Margin	21.5%	18.2%	19.5%	19.7%
RONW (%)	38.1%	32.5%	25.8%	23.6%
ROCE (%)	30.0%	26.5%	22.6%	22.3%
<b>Gearing</b>				
Debt/Equity	0.44	0.46	0.32	0.17
Net Debt / Equity	0.19	0.28	0.17	0.01

E = Morgan Stanley Research estimates  
Source: Company data; Morgan Stanley Research

## Bharti (BRTI.BO, Rs633.85, OW, PT Rs758)

### Investment Thesis: Why Are We Overweight?

- Increasing market share
- Focus on an integrated strategy
- An edge in spectrum and footprint, with highest RNOA

Exhibit 21

### Bharti: What's Changed?

	F2008	F2009E	F2010E	F2011E
<b>Weighted Average ARPU</b>				
New	368	326	253	223
Old	368	321	281	256
Change	0%	2%	-10%	-13%
<b>Wireless MOU</b>				
New	507	520	500	500
Old	507	534	534	534
Change	0%	-3%	-6%	-6%
<b>Wireless ARPM</b>				
New	0.73	0.63	0.51	0.45
Old	0.73	0.60	0.53	0.48
Change	0%	4%	-4%	-7%
<b>Consol Net Revenues</b>				
New	270,250	364,807	392,489	447,905
Old	270,250	370,280	480,299	555,933
Change	0%	-1%	-18%	-19%
<b>EBITDA (Rs million)</b>				
New	113,715	150,711	163,340	187,123
Old	113,715	153,963	197,803	231,877
Change	0%	-2.1%	-17%	-19%
<b>Net profit</b>				
New	67,008	85,927	99,316	112,374
Old	67,008	84,062	107,756	129,768
Change	0%	2%	-8%	-13%

Source: Company data, Morgan Stanley Research E = Morgan Stanley Research estimates

Exhibit 22

### Bharti: Sum-of-the-Parts Valuation

Core Enterprise Value (EV) DCF	669
Net Debt	49
<b>Core Equity Value DCF</b>	<b>620</b>
Total Tower value per Share (EV Based)	276
<b>Towerco Contribution to Bharti's share price</b>	<b>138</b>
<b>Bharti's Target Price = Core EV + Tower</b>	<b>758</b>

Source: Company data, Morgan Stanley Research

### Valuation Methodology

We value Bharti based on sum-of-the-parts, adding our DCF value for Bharti's core business to the value derived from its tower business.

Our value for Bharti's core business remains at the mid-point of the value derived from our DCF calculation on a one-year forward basis, assuming a terminal growth rate of 3% and cost of capital of 11.8% (Exhibits 2 & 3). Based on our revised estimates, and a one-quarter forward rollover, we arrive at our new core business enterprise value of Rs669/share.

Our tower business valuation for Bharti is based on RCOM's transaction with private equity investors, in which it sold 5% of its tower business at a current equity value of US\$6.7bn and March 2008 EV of US\$9bn. In our analysis, we arrive at an enterprise-based value of US\$265k per usable tower.

We value Bharti's tower business at Rs276/share; however, since the company itself would be its biggest consumer, we have assumed that 50% of the tower valuation is derived from other operators using its towers. We thus add Rs138/share to our core business equity value and arrive at our new target price of Rs758/share.

### Downside risks to our price target include:

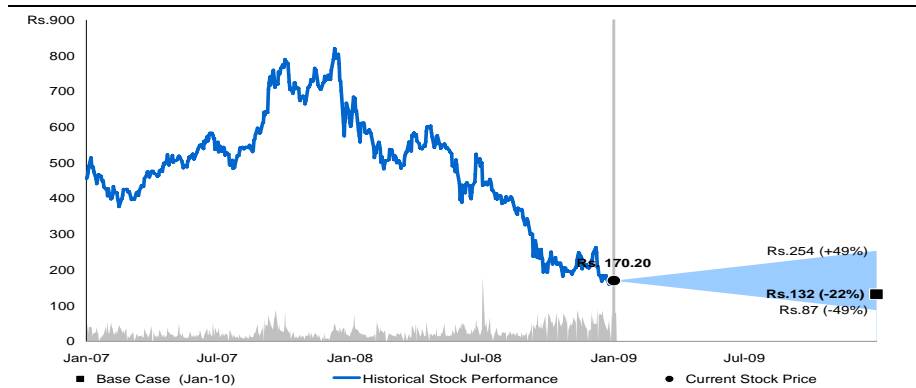
- Higher than expected fall in tariffs due to aggressive pricing from new operators to gain subscribers.
- Competition from regional operators intensifies, leading some to exit the business or consolidate.
- The CDMA operators resume major handset subsidies.
- Regulatory uncertainty regarding spectrum and termination charges.

### Upside risks to our price target include:

- Unlocking value in the tower business through listing, strategic sale.
- We estimate a 100bps EBITDA margin improvement for Bharti due to lower license fees once it meets the government's 95% coverage criteria.

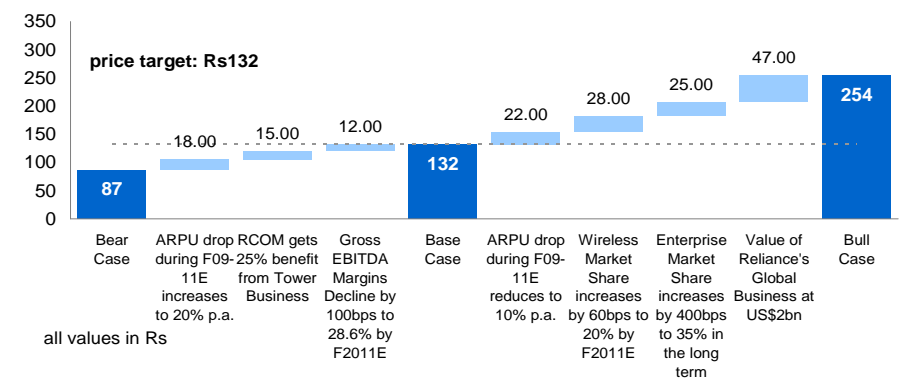
## Risk-Reward Snapshot: Reliance Communications (RLCM.BO, Rs170.20, UW, PT Rs132.00)

### Favorable Risk-Reward but Pressures on Business



<b>Price Target Rs132</b>	Derived from Base-Case scenario.	
<b>Bull Case Rs254</b>	At par to bull case SOTP	<b>Slower ARPU decline:</b> Annual ARPU decrease of 10%. Wireless market share increases 60bps to 20% by F2011E. Increases enterprise market share to 35% in the long term. RCOM's wholly owned subsidiary, Reliance Globalcom, is listed.
<b>Base Case Rs132</b>	At par to base case SOTP	<b>Improving margin, strong market share:</b> Annual ARPU decline of 14.5% for F2009-11E. Gross EBITDA margin to stabilize at 29.6% by F2011. Market shares of 40% for international long distance, 25% for national long-distance, and 31% for domestic enterprise business in the long term.
<b>Bear Case Rs87</b>	At par to bear case SOTP	<b>Increasing competition:</b> RCOM gets 25% benefit through external leasing of towers, rest being internal consumption; ARPU decline is faster at 20% p.a. during F2009-11E; Gross EBITDA margins decline by 100bps to 28.6% by F2011E, due to higher than expected rollout and sales costs

### Bear to Bull: ARPU and Market Share Are Key



Source: Morgan Stanley, FactSet

### Investment Thesis

- Disappointing F3Q09 results.
- Net adds for RCOM remain at highest ever, but should peak in F2010E.
- Near-term execution risk due to GSM launch/aggressive pricing.
- Huge interest and depreciation burden.

### Key Value Drivers

- Improvement in EBITDA margins by F2011, driven by economies of scale and stability of operations in newly launched areas.
- Strong net adds through pan-India presence in both CDMA and GSM.
- Potential to unlock value in the tower business and Reliance Globalcom
- Market share in long-distance and enterprise businesses.

### Potential Catalysts

- Unlocking value in tower business.
- Strong net adds post All-India GSM launch.
- We estimate 100bps EBITDA margin improvement for RCOM due to lower license fees once it meets the government's 95% coverage criteria.
- Higher Network and rollout costs lead to EBITDA Margin contraction

### Risks

- Increased competition.
- Rollover of dual services, GSM and CDMA
- Balance sheet risk due to high debt and hence high interest costs
- Lesser than expected increase in network costs could surprise on EBITDA margins
- High capex could lead to higher depreciation costs

February 2, 2009

India Telecommunications

## RCOM: Financial Summary

### Income Statement

Rs mn (Year ending March 31)	F2008	F2009E	F2010E	F2011E
Wireless	150,170	176,761	209,016	236,060
Global	54,750	67,015	76,857	90,967
Broadband	17,868	25,409	35,529	47,790
Infratel	-	35,895	61,296	78,549
Gross Revenues	227,093	315,080	382,699	453,366
Interdivision revenues	38,381	67,770	72,020	80,260
<b>Net Revenues</b>	<b>188,712</b>	<b>247,310</b>	<b>310,679</b>	<b>373,107</b>
Total Operating Revenues				
Total Operating Costs	108,687	153,456	196,621	238,913
<b>EBITDA</b>	<b>80,025</b>	<b>93,854</b>	<b>114,058</b>	<b>134,194</b>
Depreciation	28,053	39,681	48,941	60,842
Non Operating Income	5,962	8,058	5,191	5,455
Interest Expenses	-	1,075	18,355	21,134
<b>Profit before Tax</b>	<b>57,935</b>	<b>61,157</b>	<b>51,954</b>	<b>57,673</b>
Income Tax	2,836	116	5,528	7,090
<b>Profit after Tax</b>	<b>55,099</b>	<b>61,041</b>	<b>46,426</b>	<b>50,583</b>
Minority Interest	(1,088)	(966)	(657)	(193)
<b>Consolidated PAT</b>	<b>54,011</b>	<b>60,075</b>	<b>45,769</b>	<b>50,390</b>
Extraordinary Items	12,828	-	-	-
<b>Reported PAT</b>	<b>66,839</b>	<b>60,075</b>	<b>45,769</b>	<b>50,390</b>

### Ratio Analysis

	F2008	F2009E	F2010E	F2011E
<b>Valuation</b>				
ModelWare EPS	26.7	29.6	22.5	24.5
Adj. EPS	32.4	29.1	22.2	24.4
Book Value	140.6	165.8	183.9	202.3
DPS(Rs)	0.7	3.7	3.8	5.2
P/E	6.4	5.8	7.6	6.9
P/BV	1.2	1.0	0.9	0.8
Yield	0%	2%	2%	3%
EV/EBITDA	6.1	6.3	5.8	5.1
<b>Profitability</b>				
EBITDA Margin (Net Rev)	42.4%	38.0%	36.7%	36.0%
Net Margin	23.8%	19.1%	12.0%	11.1%
RONW (%)	25.7%	19.0%	12.7%	12.6%
ROCE (%)	11.9%	9.9%	9.5%	9.5%
<b>Gearing</b>				
Debt/Equity	0.89	0.91	1.04	0.97
Net Debt / Equity	0.48	0.71	0.81	0.79
Gross Debt / EBITDA	3.23	3.33	3.46	3.03
Net Debt / EBITDA	1.74	2.58	2.69	2.45
Debt Service Ratio	0.00	-1.16	-1.11	8.40
Capex % of Net Sales	1.17	0.94	0.51	0.32

### Balance Sheet

Rs mn (Year ending March 31)	F2008	F2009E	F2010E	F2011E
<b>SOURCES</b>				
Share Capital	10,320	10,320	10,320	10,320
Reserves & Surplus	279,943	331,973	369,245	407,230
<b>Shareholders' Funds</b>	<b>290,263</b>	<b>342,293</b>	<b>379,565</b>	<b>417,550</b>
Loan Funds	258,217	312,766	394,607	406,360
Minority Interest	24,309	25,275	25,932	26,125
<b>TOTAL LIABILITIES</b>	<b>573,817</b>	<b>681,362</b>	<b>801,132</b>	<b>851,063</b>
<b>APPLICATIONS</b>				
Net Block	373,826	635,367	770,747	841,404
Capital Work in Progress	149,299	79,872	53,637	41,721
<b>Net Fixed Assets</b>	<b>523,126</b>	<b>715,239</b>	<b>824,384</b>	<b>883,125</b>
Investments	109,996	30,000	30,000	30,000
Current Assets	97,035	112,713	113,995	121,723
Cash	8,782	40,161	57,917	46,931
Current Liabilities	200,776	216,751	225,165	230,716
<b>Net Current Assets</b>	<b>(94,959)</b>	<b>(63,877)</b>	<b>(53,252)</b>	<b>(62,061)</b>
<b>TOTAL ASSETS</b>	<b>573,817</b>	<b>681,362</b>	<b>801,132</b>	<b>851,063</b>

### Cash Flow Statement

Rs mn (Year ending March 31)	F2008	F2009E	F2010E	F2011E
<b>Operating Activities</b>				
Profit/(Loss) before tax	57,935	61,157	51,954	57,673
Depreciation	28,053	39,681	48,941	60,842
Amortization	-	-	-	-
Direct Taxes Paid	(2,836)	(116)	(5,528)	(7,090)
Changes in Working Capital	1,383	297	7,131	(2,177)
Prior period adjustments	-	1,075	18,355	21,134
<b>Operating Cash Flows</b>	<b>100,567</b>	<b>102,093</b>	<b>120,853</b>	<b>130,382</b>
<b>Investing Activities</b>				
(Purchase)/Sale of Fixed Assets	(220,756)	(231,794)	(158,086)	(119,583)
Inc/(Dec) in Goodwill + Intangibles	(9,067)	35,654	-	-
<b>(Purchase)/ Sale of Investments</b>	<b>(32,882)</b>	<b>79,996</b>	-	-
<b>Investing Cash Flows</b>	<b>(262,705)</b>	<b>(116,143)</b>	<b>(158,086)</b>	<b>(119,583)</b>
<b>Operating + Investing Cash Flows</b>	<b>(162,138)</b>	<b>(14,050)</b>	<b>(37,233)</b>	<b>10,799</b>
<b>Financing Activities</b>				
Issue of Share Capital	97	-	-	-
Repayment of Long Term Debt	83,834	54,549	81,841	11,754
Change in Shareholders Equity	16,793	966	657	193
Interest on Long Term Loans	-	(1,075)	(18,355)	(21,134)
Dividends Paid	(1,548)	(7,702)	(7,824)	(10,767)
Dividend Tax	(263)	(1,309)	(1,330)	(1,830)
<b>Financing Cash Flows</b>	<b>98,913</b>	<b>45,429</b>	<b>54,989</b>	<b>(21,786)</b>
<b>Net change in Cash &amp; Cash Eqv</b>	<b>(63,225)</b>	<b>31,379</b>	<b>17,756</b>	<b>(10,986)</b>
<b>Cash &amp; Marketable Securities</b>				
Beginning balance	72,006	8,782	40,161	57,917
Ending Balance	8,782	40,161	57,917	46,931

E = Morgan Stanley Research Estimates  
Source: Company data, Morgan Stanley Research

## Reliance Communications (RLCM.BO, Rs170.2, UW, PT Rs132)

### Investment Thesis: Why Are We Underweight?

- Disappointing F3Q09 results - pressures in wireless and global businesses
- Near-term execution risk due to GSM launch coupled with aggressive pricing.
- Balance sheet risk due to high debt and hence high interest costs.

Exhibit 23

### RCOM: What's Changed?

	F2008	F2009E	F2010E	F2011E
<b>Revenues</b>				
Old	188,712	241,519	331,508	414,266
New	188,712	247,310	310,679	373,107
Change	0.0%	2.4%	-6.3%	-9.9%
<b>Total Consol EBITDA (Rs mn)</b>				
Old	80,192	98,073	126,062	154,765
New	80,025	93,854	114,058	134,194
Change	-0.2%	-4.3%	-9.5%	-13.3%
<b>Net EBITDA Margin</b>				
Old	42.5%	40.6%	38.0%	37.4%
New	42.4%	38.0%	36.7%	36.0%
Change	-0.1%	-2.7%	-1.3%	-1.4%
<b>Net Interest income/ (Expense)</b>				
Old	5,962	142	-11,341	-11,990
New	5,962	6,983	-13,163	-15,680
Change	0.0%	4826.1%	16.1%	30.8%
<b>Consolidated Net Profit</b>				
Old	54,011	58,941	58,143	72,181
New	54,011	60,075	45,769	50,390
Change	0.0%	1.9%	-21.3%	-30.2%
<b>EPS</b>				
Old	26.17	28.56	28.17	34.97
New	26.17	29.11	22.17	24.41
Change	0.0%	1.9%	-21.3%	-30.2%
<b>CDMA Subs (million)</b>				
Old	38.8	52.8	62.5	69.1
New	38.8	52.8	57.4	60.0
Change	0.0%	0.0%	-8.1%	-13.3%
<b>GSM Subs (million)</b>				
Old	7.0	14.8	28.8	40.6
New	7.0	14.8	36.1	53.0
Change	0.0%	0.0%	25.3%	30.6%
<b>Wireless Subs (million)</b>				
Old	45.8	67.5	91.2	109.7
New	45.8	67.5	93.5	112.9
Change	0.0%	0.0%	2.4%	2.9%
<b>Wireless Monthly ARPU (Rs)</b>				
Old	337	267	246	237
New	337	258	215	189
Change	0.0%	-3.3%	-12.6%	-20.1%
<b>Wireless Monthly MOU</b>				
Old	460	460	460	460
New	460	420	420	420
Change	0.0%	-8.7%	-8.7%	-8.7%
<b>Wireless ARPM</b>				
Old	0.73	0.58	0.54	0.51
New	0.73	0.62	0.51	0.45
Change	0.0%	5.9%	-4.3%	-12.5%

Source: Morgan Stanley Research

## Valuation Methodology

We use a sum-of-parts valuation to arrive at our price target for RCOM, adding its core business valuation to the tower business valuation (since RCOM has de-merged its tower businesses into separate companies with the objective of sharing the towers with the industry).

Our core business value for RCOM remains the mid-point of the value derived from our DCF calculation on a one-year forward basis, assuming a terminal growth rate of 3% and cost of capital of 15.2% (Exhibit 3). Based on our revised estimates, we arrive at our new core business enterprise value of Rs232/share. The company has one of the highest net debt levels in the industry, which equates to Rs161/share; therefore, the equity value equates to Rs70/share.

Our valuation for RCOM's tower business is an Enterprise Value of Rs187/share, as shown in Exhibit 24. We now assume 67% of towers are used by RCOM itself and hence add the incremental value created, i.e., the remaining 33% of our enterprise value for RCOM's tower business; i.e., Rs62/share to our core value to arrive at a sum-of-the-parts-based equity price target of Rs132/share (Exhibit 24).

### Downside risks to our price target include:

- Increased competition increases the risk of a price war with new operators over market share.
- Rollover of dual services GSM and CDMA – possibility of cannibalization due to launch of services using GSM technology despite having CDMA services.
- Balance sheet risk due to high debt and hence high interest costs – the company has high gross debt and given its aggressive capex plans, it could need additional debt over the next few years assuming capex requirements exceed operating cash flows. In such a scenario, the company's cost of debt and interest costs could increase further.
- High capex could lead to higher depreciation costs – if the capex increases, it would lead to a higher depreciation and interest burden. This could lead to lower-than-expected profits for the company in the future.



**Upside risks include:**

- If RCOM was able to unlock the value of its Tower business there would be upside risk to our target price being achieved.
- A successful GSM all India launch and garnering over 25% market share would also provide upside risk to our target price being achieved.

Exhibit 24

**RCOM: Sum-of-the-Parts (SOTP) Valuation**

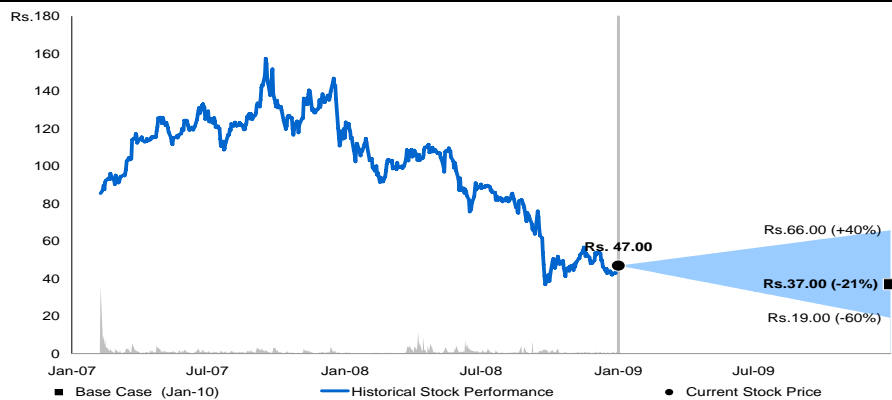
**(Rs Per Share)**

Core Enterprise Value (EV) DCF	232
Net Debt	161
Core Equity Value DCF	70
Tower value per Share (EV Based)	187
Contribution to RCOM's share price	62
<b>RCOM's Target Price = Core EV + Tower</b>	<b>132</b>

Source: Company data, Morgan Stanley Research

## Risk-Reward Snapshot: Idea Cellular (IDEA.BO, Rs47, UW, PT Rs37)

### Risk-Reward View: Being a Pure Wireless Player, Idea Gets Hurt the Most



### Investment Thesis

- India is the fastest growing telecom market.
- Idea being a pure wireless player suffers the most in a deteriorating wireless landscape.
- New circle launches could lead to a decline in margins in the next 12 months.

### Key Value Drivers

- Improvement in wireless EBITDA margins driven by economies of scale.
- Increased outsourcing of towers could lead to lower capex and hence FCF in three years.

### Potential Catalysts

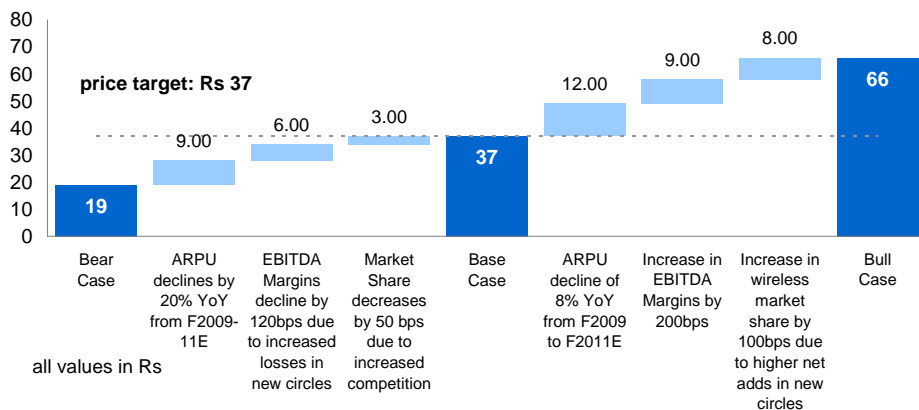
- Unlocking value of the tower subsidiary
- Consolidation of spice and new circle rollout may increase costs and hence pressure on EBITDA margins

### Key Risks

- Higher than expected fall in tariffs due to aggressive pricing from new operators to gain subscribers.
- Competition from regional operators intensifies, leading some to exit the business or consolidate.
- The CDMA operators resume major handset subsidies.
- Regulatory uncertainty regarding spectrum and termination charges
- Lower than expected losses in spice and new circles could improve EBITDA margins

Price Target Rs37		Sum-Of-Parts-Valuation
<b>Bull Case</b> Rs66	At par to bull case SOTP	<b>Fully fledged operations:</b> Idea launches operations in 9 remaining circles and becomes a pan-India operator; ARPUs decline by 8% p.a. during F2009-11E; Gross EBITDA margin improvement of 200bps to 24.2% levels.
<b>Base Case</b> Rs37	At par to base case SOTP	<b>Near term pain due to new launches:</b> Has 13.4% Wireless market share by F2011E with 77.6mn subs including 2 spice circles; Launches operations in 9 new circles during F10; ARPU decline of 13% p.a. during F09-11E; EBITDA margins of 21% in F2010 and 26.5% long term.
<b>Bear Case</b> Rs19	At par to bear case SOTP	<b>Competitive pressures surface:</b> ARPUs decline by 20% p.a. during F2009-11E; increase in costs lead to gross EBITDA margins declining by 120bps; long-term market share declines by 50bps.

### Bear to Bull: Performance in New Launches Could Be Critical



Source: Morgan Stanley, FactSet

## Idea Cellular: Financial Summary

### Income Statement

Rs mn (Year ending March 31)	F2008	F2009E	F2010E	F2011E
<b>Total Revenues</b>	<b>67,200</b>	<b>103,235</b>	<b>140,551</b>	<b>161,500</b>
<b>Total Operating Costs</b>	<b>44,682</b>	<b>77,444</b>	<b>111,111</b>	<b>125,629</b>
<b>EBITDA</b>	<b>22,518</b>	<b>25,790</b>	<b>29,440</b>	<b>35,871</b>
Depreciation	7,569	10,984	13,014	16,134
Amortization	1,199	1,199	1,581	1,533
Non Operating Income	175	1,718	1,620	805
Interest Expenses	2,776	6,471	8,793	10,003
<b>Pre-operating Costs / Loss of JVs</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Profit before Tax</b>	<b>11,148</b>	<b>8,854</b>	<b>7,672</b>	<b>9,005</b>
Income Tax	725	649	614	1,020
<b>Profit after Tax</b>	<b>10,423</b>	<b>8,205</b>	<b>7,058</b>	<b>7,985</b>
<b>Minority Interest</b>	<b>--</b>	<b>(123)</b>	<b>(1,323)</b>	<b>(1,505)</b>
<b>Share is associates</b>	<b>--</b>	<b>492</b>	<b>5,291</b>	<b>6,020</b>
<b>Consolidated Net Profit</b>	<b>10,423</b>	<b>8,573</b>	<b>11,027</b>	<b>12,500</b>
<b>Extraordinary Items</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Reported PAT</b>	<b>10,423</b>	<b>8,573</b>	<b>11,027</b>	<b>12,500</b>
Interest on Preference Shares	-	-	-	-
Carried Forward P&L Balance	(24,502)	(14,079)	(5,506)	-
<b>P&amp;L Bal. Carried to Balance Sheet</b>	<b>(14,079)</b>	<b>(5,506)</b>	<b>5,521</b>	<b>12,500</b>

\* Our calculations do not include Other Income as a part of Total Revenues.

### Ratio Analysis

	F2008	F2009E	F2010E	F2011E
<b>Valuation</b>				
ModelWare EPS	3.96	2.62	3.38	3.83
Book Value(Rs/Share)	13.5	43.6	47.4	51.3
DPS(Rs)	-	-	-	0.3
P/E	11.9	17.9	13.9	12.3
P/BV	3.5	1.1	1.0	0.9
Yield	0%	0%	0%	1%
EV/EBITDA	8.2	7.6	7.7	6.8
<b>Profitability</b>				
EBITDA Margin	33.5%	25.0%	20.9%	22.2%
Net Margin	15.5%	8.3%	7.8%	7.7%
RONW	29.4%	6.0%	7.1%	7.5%
ROCE	15.0%	6.7%	6.7%	6.8%
RONW*	21.0%	5.8%	7.1%	7.5%
<b>Gearing</b>				
Debt/Equity	1.8	0.7	0.7	0.8
Net Debt / Equity	1.7	0.3	0.5	0.5
Interest Coverage Ratio(X)	5.0	2.4	1.9	1.9

\* Calculation of RONW does not include carried forward losses.

### Balance Sheet

Rs mn (Year ending March 31)	F2008	F2009E	F2010E	F2011E
<b>SOURCES</b>				
Share Capital	26,354	32,664	32,664	32,664
Carried Forward Losses	(14,079)	(5,629)	-	-
Reserves & Surplus	23,172	91,469	96,990	108,240
<b>Shareholders' Funds</b>	<b>35,446</b>	<b>118,505</b>	<b>129,654</b>	<b>140,904</b>
Loan Funds	65,154	103,811	113,970	134,240
<b>Total Liabilities</b>	<b>100,600</b>	<b>222,316</b>	<b>243,624</b>	<b>275,145</b>
<b>APPLICATIONS</b>				
Net Block	78,899	128,596	175,710	217,363
Capital Work in Progress	10,372	14,236	16,317	14,852
<b>Net Fixed Assets</b>	<b>89,270</b>	<b>142,832</b>	<b>192,026</b>	<b>232,215</b>
Goodwill	61	61	61	61
Intangible Assets	17,892	52,693	51,112	49,579
Investments	5,560	-	-	-
Losses Carried From P&L Account	14,079	5,629	-	-
Current Assets	10,525	28,004	28,798	22,559
Cash & Marketable Securities	4,975	61,837	39,939	42,260
Current Liabilities	27,022	38,548	42,427	44,139
<b>Net Current Assets</b>	<b>(11,523)</b>	<b>51,292</b>	<b>26,309</b>	<b>20,680</b>
<b>Total Assets</b>	<b>101,261</b>	<b>246,878</b>	<b>269,509</b>	<b>302,535</b>

### Cash Flow Statement

Rs mn (Year ending March 31)	F2008	F2009E	F2010E	F2011E
Profit/(Loss) before tax	11,148	8,854	7,672	9,005
Depreciation and Amortization	8,768	12,184	14,595	17,668
Amortization	1,199	1,199	1,581	1,533
Direct Taxes Paid	(75)	(649)	(614)	(1,020)
Interest	2,776	6,471	8,793	10,003
Changes in Working Capital	1,438	(5,953)	3,085	7,950
Change in Other Non-Current Assets	(0)	(123)	(5,398)	-
<b>Operating Cash Flows</b>	<b>23,383</b>	<b>24,068</b>	<b>33,425</b>	<b>49,626</b>
Purchase/(Sale) of Fixed Assets	(47,603)	(64,546)	(62,209)	(56,323)
(Inc)/ Dec in Goodwill + Intangibles	(7,228)	(36,000)	(0)	0
(Inc)/Dec of Non-Current Assets	5,548	(5,560)	-	-
<b>Investing Cash Flows</b>	<b>(49,283)</b>	<b>(106,106)</b>	<b>(62,209)</b>	<b>(56,323)</b>
Proceeds from Issue of Share Capital	425	6,311	-	-
Repayment of Long Term Borrowings	22,649	38,657	10,159	20,271
Change in Shareholders Equity	(7,623)	100,404	5,521	-
Interest on Long Term Loans	(2,776)	(6,471)	(8,793)	(10,003)
Dividends Paid	-	-	-	(1,094)
Dividend Tax	-	-	-	(156)
<b>Financing Cash Flows</b>	<b>12,675</b>	<b>138,900</b>	<b>6,886</b>	<b>9,018</b>
Net change in Cash and Cash Eqv	(13,225)	56,862	(21,898)	2,321
Beginning Cash balance	18,199	4,975	61,837	39,939
Ending Cash Balance	4,975	61,837	39,939	42,260

E = Morgan Stanley Research estimates

Source: Company data; Morgan Stanley Research

## Idea Cellular (IDEA.BO, Rs47, UW, PT Rs37)

### Investment Thesis: Why Are We Underweight?

- Being a pure wireless player, Idea gets hurt the most during tariff wars.
- Long-term earnings estimates fall 30% vs. previous estimates due to lower ARPU and ARPM.
- New circle launches could lead to a decline in margins in the next 12 months.

Exhibit 25

### Idea Cellular: What's Changed?

	F2009E	F2010E	F2011E
<b>Wireless Subscribers</b>			
Old	37,262	57,320	69,300
New	42,659	62,605	77,647
Change	<b>14.5%</b>	<b>9.2%</b>	<b>12.0%</b>
<b>Wireless Net Adds/month</b>			
Old	1,105	1,671	998
New	1,555	1,662	1,254
Change	<b>40.7%</b>	<b>-0.6%</b>	<b>25.6%</b>
<b>Wireless ARPU</b>			
Old	256	239	229
New	251	217	189
Change	<b>-2.0%</b>	<b>-9.3%</b>	<b>-17.6%</b>
<b>Wireless MOU</b>			
Old	411	411	411
New	420	420	420
Change	2.2%	2.2%	2.2%
<b>Wireless ARPM</b>			
Old	0.62	0.58	0.56
New	0.60	0.52	0.45
Change	<b>-4.1%</b>	<b>-11.2%</b>	<b>-19.3%</b>
<b>Revenues</b>			
Old	100,845	156,288	195,682
New	103,235	140,551	161,500
Change	2.4%	<b>-10.1%</b>	<b>-17.5%</b>
<b>EBITDA Margins</b>			
<b>OLD</b>			
Existing Wireless	30.3%	28.6%	28.6%
New 3 Circles	1.5%	15.0%	20.0%
New Rest of India	-105.0%	-79.1%	-27.9%
Spice		25.0%	26.0%
Passive	42.6%	40.8%	40.2%
<b>Overall</b>	<b>27.0%</b>	<b>24.1%</b>	<b>24.7%</b>
<b>NEW</b>			
Existing Wireless	30.3%	28.6%	28.6%
New 3 Circles	-3.0%	8.0%	15.0%
New Rest of India	-118.4%	-60.1%	-19.4%
Spice	20.0%	22.0%	23.0%
Passive	31.2%	34.6%	34.6%
<b>Overall</b>	<b>25.0%</b>	<b>20.9%</b>	<b>22.2%</b>
<b>CHANGE</b>			
Existing Wireless	0.0%	0.0%	0.0%
New 3 Circles	-4.5%	-7.0%	-5.0%
New Rest of India	<b>-13.4%</b>	<b>19.0%</b>	<b>8.5%</b>
Spice		-3.0%	-3.0%
Passive	<b>-11.4%</b>	<b>-6.2%</b>	<b>-5.6%</b>
<b>Overall</b>	<b>-2.0%</b>	<b>-3.1%</b>	<b>-2.5%</b>
<b>PAT</b>			
Old	8,561	10,890	13,191
New	8,573	11,027	12,500
Change	0.1%	1.3%	<b>-5.2%</b>
<b>PAT+Depreciation</b>			
Old	19,272	25,822	34,062
New	19,558	24,041	28,635
Change	1.5%	<b>-6.9%</b>	<b>-15.9%</b>

Source: Morgan Stanley Research

## Valuation Methodology

Our new 12-month target price of Rs37/share for Idea is based on our revised DCF model and the value we attribute to Idea's towers. We assume a terminal growth rate of 3% and cost of capital of 13%. Our Sum-Of-the-Part-based valuation is shown in Exhibit 26.

Exhibit 26

### Idea Cellular: Sum-of-the-Parts Valuation

(Rs/share)

Core Business Equity Value	19
Tower Valuation	19
<b>Target Price</b>	<b>37</b>

Source: Company data, Morgan Stanley Research

### Downside risks to our price target include:

- Higher than expected fall in tariffs due to aggressive pricing from new operators to gain subscribers.
- Competition from regional operators intensifies, leading some to exit the business or consolidate.
- The CDMA operators resume major handset subsidies.
- Regulatory uncertainty regarding spectrum and termination charges.

### Upside Risks Include:

- Potential listing of tower subsidiary.

February 2, 2009

India Telecommunications

Exhibit 27

## India Telecoms: Subscribers and Market Shares by Operator

<i>(in mn)</i>	F2007	F2008	F2009E	F2010E	F2011E	CAGR 2009-11E
<b>Overall</b>						
<b>Wireless Subscribers</b>	<b>164.5</b>	<b>261.1</b>	<b>368.2</b>	<b>480.5</b>	<b>581.2</b>	26%
GSM	120.5	192.7	276.2	380.0	475.0	31%
CDMA	44.0	68.4	92.0	100.5	106.1	7%
<b>Wireless Net Adds</b>	<b>65.9</b>	<b>96.6</b>	<b>107.1</b>	<b>112.4</b>	<b>100.6</b>	-3%
GSM	51.3	72.2	83.5	103.9	95.0	7%
CDMA	14.6	24.3	23.6	8.5	5.6	-51%
<b>Operator-wise</b>	5.5	8.0	8.9	9.4	8.4	-3%
<b>Total Wireless Subscribers</b>	<b>164.5</b>	<b>261.1</b>	<b>368.2</b>	<b>480.5</b>	<b>581.2</b>	26%
Bharti	37.1	62.0	92.5	116.8	135.5	21%
BPL	1.1	0.8	0.6	0.3	0.0	NM
BSNL	30.4	39.3	48.5	59.9	70.3	20%
Vodafone Essar	26.3	44.1	65.7	87.5	104.4	26%
Idea Cellular	14.0	24.0	38.7	59.8	73.3	38%
MTNL	2.9	3.5	4.3	5.2	5.8	16%
Reliance Communications	28.0	45.8	67.5	93.5	112.9	29%
CDMA	24.6	38.8	52.8	57.4	60.0	7%
GSM	3.4	7.0	14.8	36.1	53.0	89%
Tata Teleservices	16.0	25.5	34.7	37.0	39.1	6%
Others	8.6	16.1	15.7	20.5	39.8	59%
GSM	8.4	15.8	14.9	18.2	36.6	57%
CDMA	0.3	0.3	0.8	2.3	3.3	108%
<b>Total Wireless Net Adds</b>	<b>65.8</b>	<b>96.6</b>	<b>107.1</b>	<b>112.4</b>	<b>100.6</b>	-3%
Bharti	17.6	24.8	30.5	24.2	18.7	-22%
BPL	-0.3	-0.3	-0.3	-0.3	-0.3	13%
BSNL	10.9	8.9	9.2	11.4	10.4	7%
Vodafone Essar	11.9	17.8	21.6	21.8	16.9	-12%
Idea Cellular	6.6	10.0	14.7	21.1	13.4	-5%
MTNL	0.8	0.7	0.8	0.9	0.6	-15%
Reliance Communications	7.8	17.8	21.7	25.9	19.5	-5%
CDMA	6.3	14.2	14.0	4.6	2.6	-57%
GSM	1.5	3.6	7.7	21.3	16.9	48%
Tata Teleservices	7.6	9.4	9.2	2.4	2.1	-52%
Others	2.8	7.4	-0.4	4.8	19.3	NA
<b>Wireless Net adds Market Share</b>						
Bharti	26.7%	25.7%	28.5%	21.6%	18.6%	
BPL	-0.4%	-0.3%	-0.2%	-0.2%	-0.3%	
BSNL	16.6%	9.2%	8.6%	10.2%	10.4%	
Vodafone Essar	18.1%	18.4%	20.2%	19.4%	16.8%	
Idea Cellular	10.1%	10.3%	13.7%	18.8%	13.3%	
MTNL	1.2%	0.7%	0.7%	0.8%	0.6%	
Reliance Communications	11.8%	18.4%	20.3%	23.1%	19.4%	
CDMA	9.6%	14.7%	13.0%	4.1%	2.5%	
GSM	2.3%	3.8%	7.2%	18.9%	16.8%	
Tata Teleservices	11.5%	9.8%	8.6%	2.1%	2.1%	
Others	4.3%	7.7%	-0.4%	4.3%	19.2%	
<b>Wireless Market Share</b>						
Bharti	22.6%	23.7%	25.1%	24.30%	23.32%	
BPL	0.7%	0.3%	0.2%	0.1%	0.0%	
BSNL	18.5%	15.0%	13.2%	12.5%	12.1%	
Vodafone Essar	16.0%	16.9%	17.9%	18.2%	18.0%	
Idea Cellular	8.5%	9.2%	10.5%	12.5%	12.6%	
MTNL	1.7%	1.4%	1.2%	1.1%	1.0%	
Reliance Communications	17.0%	17.6%	18.3%	19.4%	19.4%	
CDMA	15.0%	14.9%	14.3%	11.9%	10.3%	
GSM	2.1%	2.7%	4.0%	7.5%	9.1%	
Tata Teleservices	9.7%	9.8%	9.4%	7.7%	6.7%	
Others	5.2%	6.1%	4.3%	4.3%	6.9%	

Source: Company data, E = Morgan Stanley Research Estimates

February 2, 2009  
India Telecommunications

Exhibit 28

India Telecoms: Asia Valuation Comparables

All Data is Calendarized

Key Comparables	Price 30-Jan-09	Price to Earnings/P/E			EPS Growth 2008-10E	P/E to 3yr EPS Growth 2008-11E	EV/EBITDA			EV/EBITDA to 3yr EBITDA Growth 2008-11E	EV/Sub (US\$)			ROA				RONW			Dividend Yield			FCF Yield			P/B					
		2008E	2009E	2010E			2007	2008E	2009E		2010E	2007	2008E	2009E	2010E	2006	2007	2008E	2009E	2010E	2008E	2009E	2010E	2008E	2009E	2010E	2008E	2009E	2010E	2008E	2009E	2010E
<b>Indian Telcos</b>																																
Bharti Airtel	635.0	14.0	12.1	10.7	14.4	1.01	11.0	8.6	7.8	6.5	0.69	204	159	131	112	30%	27%	23%	22%	22%	26%	24%	21%	1%	1%	1%	2%	6%	8%	3.39	2.72	2.27
Reliance Communications	163.0	5.5	7.2	6.7	(9.0)	NM	5.9	6.2	5.6	5.0	0.31	125	101	86	76	12%	10%	9%	10%	11%	13%	13%	13%	2%	3%	4%	-11%	3%	16%	0.90	0.79	0.71
Idea Cellular	44.7	17.0	13.2	11.7	20.7	0.78	9.2	6.6	6.1	5.5	0.28	92	73	64	59	15%	7%	7%	7%	7%	7%	7%	8%	0%	1%	1%	-20%	-5%	4%	0.81	0.74	0.67
<b>Average India</b>		<b>12.2</b>	<b>10.9</b>	<b>9.7</b>	<b>8.7</b>	<b>0.90</b>	<b>8.7</b>	<b>7.1</b>	<b>6.5</b>	<b>5.6</b>	<b>0.43</b>	<b>103</b>	<b>85</b>	<b>71</b>	<b>59</b>	<b>12%</b>	<b>14%</b>	<b>13%</b>	<b>13%</b>	<b>13%</b>	<b>15%</b>	<b>15%</b>	<b>14%</b>	<b>1%</b>	<b>2%</b>	<b>2%</b>	<b>-10%</b>	<b>2%</b>	<b>9%</b>	<b>1.70</b>	<b>1.42</b>	<b>1.22</b>
<b>Wireline/Integrated</b>																																
China Telecom	2.9	8.9	17.8	21.6	(36.0)	NM	3.5	3.6	4.0	4.0	NM	179	171	160	140	8%	8%	5%	4%	7%	6%	4%	7%	2%	2%	3%	9%	9%	12%	0.97	0.95	0.89
MTNL	98.0	16.2	14.5	11.8	17.1	1.06	3.3	2.1	2.1	1.5	0.12	92	90	73	49	5%	5%	5%	6%	6%	4%	4%	4%	4%	4%	4%	1%	8%	11%	0.38	0.37	0.36
Singapore Telecom	2.7	13.5	14.2	13.1	1.4	4.24	6.9	7.4	7.7	7.3	4.84	2,570	2,511	2,432	2,358	17%	14%	13%	14%	15%	13%	13%	13%	4%	5%	6%	-2%	-2%	-2%	1.76	1.68	1.61
Telekom Malaysia	3.2	16.3	25.9	28.0	(23.7)	NM	4.7	4.9	3.7	3.9	NM	977	715	734	755	NA	5%	4%	5%	5%	4%	4%	4%	6%	6%	6%	42%	4%	4%	1.11	1.14	1.18
True	1.9	73.2	5.9	3.0	391.3	0.03	4.9	4.3	3.8	3.2	0.77	148	131	116	101	4%	6%	7%	9%	8%	20%	30%	23%	0%	0%	0%	74%	80%	94%	1.01	0.75	0.60
PT Telkom	6,300.0	10.3	10.3	9.1	6.5	1.49	3.5	4.0	3.8	3.4	0.57	162	148	138	129	38%	28%	26%	27%	29%	27%	28%	28%	6%	8%	9%	5%	11%	14%	2.65	2.46	2.32
PLDT	2,080.0	10.0	9.0	8.5	8.0	1.24	5.3	4.9	4.7	4.4	1.31	240	219	206	195	21%	25%	28%	30%	32%	36%	36%	35%	8%	9%	10%	10%	11%	12%	3.18	2.98	2.78
KT Corp.	39,800.0	14.6	8.9	10.6	17.0	0.88	3.0	3.0	2.5	2.3	0.82	587	579	560	535	9%	8%	10%	10%	10%	11%	9%	8%	6%	5%	5%	14%	17%	16%	0.92	0.90	0.86
SK Broadband	6,240.0	NM	NM	11.0	NM	NM	3.7	5.2	5.2	3.7	0.31	763	623	587	505	3%	-1%	1%	7%	10%	-3%	9%	12%	0%	0%	0%	-5%	8%	15%	1.06	0.98	0.87
Dacom	18,500.0	10.6	8.1	6.7	26.0	0.47	4.8	5.0	4.6	4.0	0.58	9,931	11,547	10,109	9,050	20%	20%	20%	21%	19%	12%	13%	12%	1%	1%	2%	3%	4%	5%	0.92	0.82	0.75
PCCW	4.0	13.1	12.6	11.8	5.6	1.36	6.8	6.2	6.3	6.3	NM	1,662	1,622	1,610	1,594	4%	4%	3%	3%	3%	3%	2%	3%	8%	9%	10%	10%	9%	11%	0.30	0.27	0.25
Chungghwa	51.1	12.3	12.7	12.8	(1.8)	NM	5.1	5.1	5.3	5.2	NM	697	717	713	707	14%	15%	15%	15%	12%	12%	12%	7%	7%	7%	9%	8%	8%	1.53	1.51	1.50	
Telstra	3.8	12.6	12.6	11.4	5.1	NM	5.7	5.8	5.6	5.3	NM	2,060	2,058	2,012	NM	18%	17%	17%	18%	NA	30%	32%	NA	7%	7%	NA	7%	10%	NA	3.74	3.57	NM
<b>Average Asia Wireline</b>		<b>17.6</b>	<b>12.7</b>	<b>12.3</b>	<b>34.7</b>	<b>1.47</b>	<b>4.7</b>	<b>4.8</b>	<b>4.6</b>	<b>4.2</b>	<b>1.16</b>	<b>1,544</b>	<b>1,626</b>	<b>1,496</b>	<b>1,343</b>	<b>13%</b>	<b>12%</b>	<b>12%</b>	<b>13%</b>	<b>NA</b>	<b>13%</b>	<b>13%</b>	<b>14%</b>	<b>5%</b>	<b>5%</b>	<b>5%</b>	<b>13%</b>	<b>14%</b>	<b>17%</b>	<b>1.52</b>	<b>1.44</b>	<b>1.19</b>
<b>Wireless</b>																																
China Mobile (HK)	70.5	11.1	10.5	10.5	2.4	5.51	6.0	5.0	4.7	4.6	3.08	348	295	261	231	42%	50%	41%	35%	31%	25%	22%	19%	4%	4%	4%	6%	7%	9%	2.43	2.15	1.92
China Unicom	7.3	9.5	10.6	10.6	(5.4)	NM	2.6	2.6	3.0	2.8	9.06	111	120	107	97	20%	8%	6%	6%	6%	7%	6%	7%	4%	5%	5%	-10%	14%	12%	0.68	0.65	0.63
Bharti Airtel	635.0	14.0	12.1	10.7	14.4	1.01	11.0	8.6	7.8	6.5	0.69	204	159	131	112	30%	27%	23%	22%	22%	26%	24%	21%	1%	1%	1%	2%	6%	8%	3.39	2.72	2.27
Reliance Communications	163.0	5.5	7.2	6.7	(9.0)	NM	5.9	6.2	5.6	5.0	0.31	125	101	86	76	12%	10%	9%	10%	11%	13%	13%	13%	2%	3%	4%	-11%	3%	16%	0.90	0.79	0.71
Idea Cellular	44.7	17.0	13.2	11.7	20.7	0.78	9.2	6.6	6.1	5.5	0.28	92	73	64	59	15%	7%	7%	7%	7%	7%	7%	8%	0%	1%	1%	-20%	-5%	4%	0.81	0.74	0.67
StarHub	2.0	11.7	10.1	9.8	9.6	1.37	6.8	6.8	6.2	5.9	1.12	1,549	1,495	1,447	1,400	26%	28%	32%	32%	33%	94%	89%	84%	9%	10%	10%	10%	11%	11%	9.08	8.29	7.61
Mobile One Limited	1.6	9.3	9.3	9.0	1.7	3.02	5.5	5.3	5.2	5.0	4.03	712	676	650	629	36%	36%	36%	38%	40%	70%	68%	67%	10%	10%	11%	11%	11%	6.32	5.91	5.52	
TM International	3.2	9.5	9.7	7.3	14.1	0.59	4.9	5.7	5.3	4.5	0.53	893	856	783	710	NA	9%	7%	8%	8%	9%	11%	12%	0%	0%	5%	-6%	10%	19%	0.86	0.77	0.71
DiGi	20.5	13.5	14.0	14.2	(2.5)	NM	7.5	7.4	7.3	7.3	2.21	646	619	606	585	87%	88%	58%	54%	56%	71%	103%	144%	6%	7%	7%	6%	7%	7%	11.63	20.07	19.66
Advanced Info Service	75.0	11.8	11.9	12.0	(0.5)	18.81	5.6	5.2	5.1	5.0	9.92	244	223	210	197	18%	19%	20%	21%	22%	23%	23%	24%	9%	9%	9%	10%	11%	11%	2.77	2.79	2.79
Total Access Comm.	29.5	8.6	8.4	8.4	1.1	NM	5.1	4.4	4.0	3.6	8.02	144	125	113	104	10%	12%	11%	11%	8%	14%	13%	8%	4%	7%	7%	11%	14%	11%	1.09	1.04	1.02
PT Indosat	5,650.0	14.1	15.0	12.5	6.2	1.23	4.5	5.3	5.2	4.6	0.60	112	104	98	91	12%	12%	10%	10%	11%	10%	11%	13%	2%	3%	4%	-5%	9%	16%	1.48	1.38	1.26
Bakrie Telecom	50.0	6.1	2.7	1.5	103.6	0.04	6.4	2.0	2.1	1.3	0.05	22	32	27	21	13%	10%	12%	15%	16%	10%	16%	16%	0%	0%	17%	-108%	23%	65%	0.25	0.22	0.19
Globe Telecom Ltd	835.0	7.9	7.7	7.9	(0.1)	NM	3.4	3.7	3.7	3.8	6.48	121	113	113	109	18%	18%	19%	20%	21%	29%	33%	37%	9%	12%	12%	14%	14%	12%	2.40	2.97	2.98
Pitell	6.8	7.6	7.0	6.6	7.8	1.04	6.2	5.1	4.9	4.4	1.06	69	55	50	46	57%	68%	66%	71%	75%	64%	61%	56%	11%	12%	13%	14%	16%	17%	4.22	3.74	3.34
SK Telecom	207,500.0	11.1	9.3	8.6	13.3	0.83	4.8	5.0	4.3	4.0	1.10	838	838	838	838	20%	21%	23%	23%	23%	13%	13%	12%	4%	5%	5%	10%	12%	12%	1.12	1.04	0.96
KTF	29,000.0	24.8	9.4	7.9	77.3	0.19	3.9	4.2	2.8	2.5	0.28	336	287	259	233	7%	6%	12%	14%	14%	12%	13%	12%	1%	4%	5%	19%	17%	17%	1.06	0.97	0.91
LG Telecom	9,310.0	8.1	8.1	7.1	7.1	1.11	4.8	4.1	3.5	2.9	0.49	289	262	231	207	11%	14%	13%	15%	17%	15%	16%	15%	4%	5%	6%	11%	17%	15%	1.16	1.04	0.95
HTIL	2.0	8.9	35.7	23.1	(38.1)	NM	(3.2)	2.8	2.8	2.8	0.56	976	1,016	1,037	940	1%	5%	5%	6%	6%	1%	2%	2%	1%	1%	1%	-20%	-10%	14%	0.48	0.47	0.46
SmarTone	6.0	12.5	17.6	14.5	(7.0)	NM	1.4	1.7	1.7	1.7	NM	212	210	193	176	6%	13%	10%	13%	14%	7%	8%	9%	6%	7%	7%	7%	10%	11%	1.22	1.20	1.20
Taiwan Mobile	47.0	10.9	11.0	11.0	(0.8)	NM	6.8	6.4	6.4	6.3	NM	925	890	858	830	23%	27%	28%	28%	29%	31%	29%										





**Morgan Stanley ModelWare is a proprietary analytic framework that helps clients uncover value, adjusting for distortions and ambiguities created by local accounting regulations.** For example, ModelWare EPS adjusts for one-time events, capitalizes operating leases (where their use is significant), and converts inventory from LIFO costing to a FIFO basis. ModelWare also emphasizes the separation of operating performance of a company from its financing for a more complete view of how a company generates earnings.

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(as of January 31, 2009)

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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	% of Total IBC	% of Rating Category
<b>Overweight/Buy</b>	<b>773</b>	<b>33%</b>	<b>223</b>	<b>37%</b>	<b>29%</b>
<b>Equal-weight/Hold</b>	<b>1044</b>	<b>44%</b>	<b>266</b>	<b>44%</b>	<b>25%</b>
<b>Not-Rated/Hold</b>	<b>33</b>	<b>1.4%</b>	<b>8</b>	<b>1.3%</b>	<b>24.2%</b>
<b>Underweight/Sell</b>	<b>498</b>	<b>21%</b>	<b>101</b>	<b>17%</b>	<b>20%</b>
<b>Total</b>	<b>2,348</b>		<b>598</b>		

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#### Analyst Industry Views

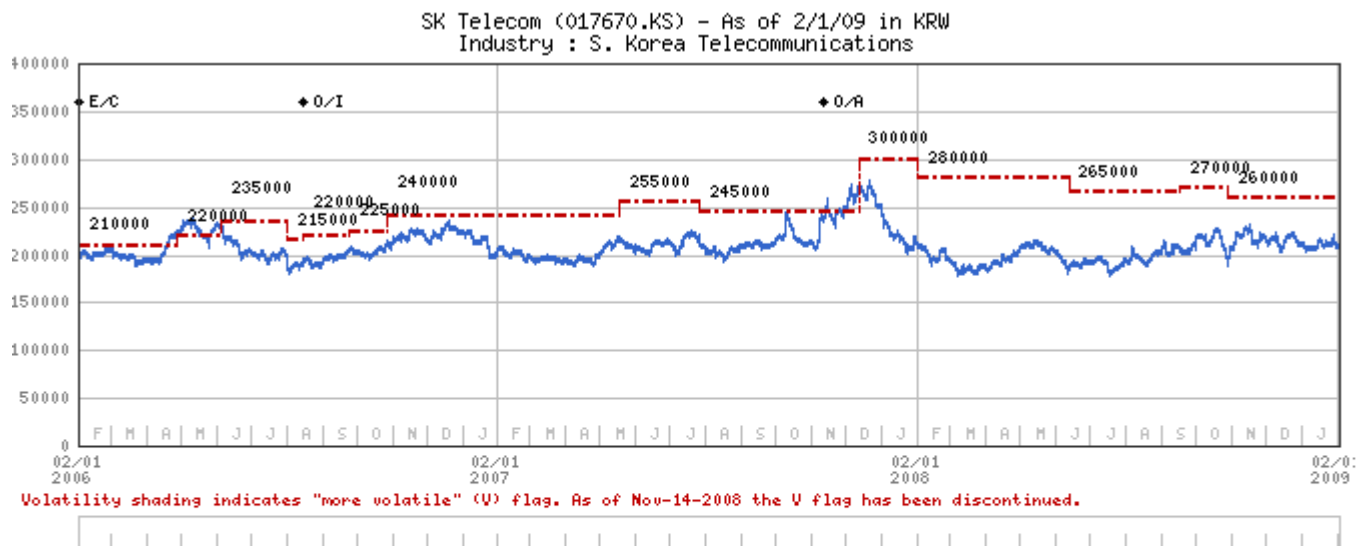
Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index.

#### Stock Price, Price Target and Rating History (See Rating Definitions)



Stock Rating History: 2/1/06 : E/C; 8/16/06 : O/I; 11/12/07 : O/A

Price Target History: 12/21/05 : 210000; 4/28/06 : 220000; 6/5/06 : 235000; 8/2/06 : 215000; 8/16/06 : 220000;  
9/25/06 : 225000; 10/27/06 : 240000; 5/18/07 : 255000; 7/27/07 : 245000; 12/12/07 : 300000; 2/1/08 : 280000;  
6/12/08 : 265000; 9/17/08 : 270000; 10/29/08 : 260000

Source: Morgan Stanley Research Date Format: MM/DD/YY Price Target --- No Price Target Assigned (NA)  
Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) —  
Stock Ratings abbreviated as below (Effective 3/18/02, ratings appear as Stock Ratings/Industry View) ♦  
Stock Ratings as of 3/18/02: Overweight (O) Equal-weight (E) Underweight (U) More Volatile (V) No Rating Available (NAU)  
Stock Ratings prior to 3/18/02: Strong Buy (SB) Outperform (OP) Neutral (N) Underperform (UP) No Rating Available (NAU)  
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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February 2, 2009

India Telecommunications

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**Industry Coverage:India Telecommunications**

Company (Ticker)	Rating (as of)	Price (01/30/2009)
<b>Vinay Jaising</b>		
Bharti Airtel Limited (BRTI.BO)	O (04/11/2002)	Rs633.85
Idea Cellular Ltd. (IDEA.BO)	U (02/02/2009)	Rs47
Mahanagar Telephone Nigam (MTNL.BO)	E (01/20/2009)	Rs72.25
Reliance Communications Ltd. (RLCM.BO)	U (02/02/2009)	Rs170.2
Tata Communications Ltd (TATA.BO)	U (10/22/2002)	Rs453.5

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