

India Telecoms

Q4FY11 preview: Bharti, Idea, RCOM, TTSL, TCOM

- Solid revenue growth, some margin pressure:** We forecast 2-5% Q/Q revenue growth for Bharti/Idea/RCOM driven by strong volumes (2-8%) but off-set by some ARPM pressures. We expect ~1pp Q/Q margin declines related to network opex and SG&A expenses. For Bharti Africa we forecast a 60bp Q/Q increase to 25.7%. JPMc for Bharti Consolidated / Idea/ RCOM: 33%/23%/33%. We expect 3G related costs to impact P&L in varying degrees with RCOM having a full quarter impact, a partial impact for Bharti and a negligible if any impact for Idea.
- Looking for strong volumes at the incumbents:** Strong net adds offset by some MOU pressures drive our estimate for 6%8%/2% sequential growth in total wireless minutes at Bharti/Idea/RCOM. We expect MOU pressure at RCOM as we believe it may have lost some high-usage subscribers.
- Expect MNP-driven ARPM pressure:** We forecast 3% Q/Q declines in voice ARPMs for both Bharti and Idea, off-set somewhat by non-voice revenue driving blended ARPMs to INR 0.44/0.41 representing flat/1% decline. For RCOM we forecast a 1% Q/Q decline in ARPM.
- Key issues to watch** [1] MNP impact on post-paid pricing [2] Overall pricing environment [3] 3G take-up and impact [4] Capex guidance for FY12 [5] Commentary around regulations and [6] For Bharti Africa, pricing competition, capex outlook, elasticity, cost reduction efforts.
- We see two positives for the sector in FY12 – easing of competitive intensity and regulatory clarity. We prefer Bharti as it is best positioned to absorb any negative regulatory impact in addition to benefiting from the expected pricing stability in H2 FY12 and strong earnings growth. We also like Tulip Telecom and expect continued strength in core business as increased fibre contribution drives both top-line growth and margin expansion. We remain cautious on Idea Cellular on volume dilution concerns and a potential increase in leverage if excess spectrum payments materialize.

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Price performance

%	1M	3M	12M
Absolute performance			
Bharti	10.2	5.7	11.6
RCOM	23.0	(20.6)	(37.8)
Idea	10.6	(1.9)	(1.3)
TTSL	14.6	(6.7)	(4.8)
TCOM	23.1	1.2	(12.1)
Rel performance- Sensex			
Bharti	2.7	6.2	2.6
RCOM	15.5	(20.1)	(46.8)
Idea	3.1	(1.3)	(10.4)
TTSL	7.1	(6.2)	(13.8)
TCOM	15.6	1.7	(21.1)
Rel performance-Asia-ex Telco Index			
Bharti	7.8	4.2	5.3
RCOM	20.6	(22.0)	(44.2)
Idea	8.1	(3.3)	(7.7)
TTSL	12.1	(8.1)	(11.1)
TCOM	20.7	(0.2)	(18.5)

Source: Bloomberg. Priced as of 7 April 2011.

Table 1: Valuation Comparison

Company name	Ticker	Rating	Current Price (Rs)	Price Target (Rs)	Upside/Downside	P/E (x)		EV/EBITDA (x)		Valuation method
						FY11E	FY12E	FY11E	FY12E	
Bharti Airtel	BHARTI IN	OW	358	410	15%	20.7	16.1	9.8	7.6	OW
Reliance Communications	RCOM IN	N	111	82	-26%	14.7	18.4	8.1	7.4	N
Idea Cellular	IDEA IN	UW	66	54	-18%	26.6	27.3	8.9	7.0	UW
Tulip Telecom	TTSL IN	OW	163	244	50%	8.6	7.3	6.0	4.9	OW
Tata Communications	TCOM IN	UW	255	207	-19%	4.6	4.8	11.7	9.7	UW

Source: Bloomberg, J.P. Morgan estimates. Priced as of 7 April 2011.

See page 6 for analyst certification and important disclosures, including non-US analyst disclosures.

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Table 2: India Telecom Service Providers: Q4FY11 Estimate Summary

INR in millions, year end March

	Q4FY11E JPMe	Q3FY11A	Q/Q	Q4FY10A	Y/Y	Q4FY11E Consensus	Q4FY11E JPM vs. cons
Bharti Airtel *							
Revenue	163,124	157,743	3%	107,490	52%	164,145	-1%
EBITDA	53,850	49,813	8%	41,294	30%	55,010	-2%
EBITDA margin	33.0%	31.6%	1.4	38.4%	(5.4)pp	33.5%	(0.5)pp
Net Income	17,919	13,033	37%	23,624	-24%	16,814	7%
EPS-reported(INR)	4.7	3.4	37%	6.2	-24%	4.4	7%
Reliance Communications							
Revenue	51,275	50,041	2%	50,927	1%	51,443	0%
EBITDA	16,779	16,680	1%	16,019	5%	17,440	-4%
EBITDA margin	32.7%	33.3%	(0.6)pp	31.5%	1.3	33.9%	(1.2)pp
Net Income	3,757	4,803	-22%	12,194	-69%	3,134	20%
EPS-reported(INR)	1.8	2.3	-22%	5.9	-69%	1.5	20%
Idea Cellular							
Revenue	41,630	39,556	5%	33,478	24%	41,905	-1%
EBITDA	9,509	9,483	0%	8,636	10%	10,106	-6%
EBITDA margin	22.8%	24.0%	(1.1)pp	25.8%	(3.0)pp	24.1%	(1.3)pp
Net Income	1,966	2,431	-19%	2,666	-26%	1,727	14%
EPS-reported(INR)	0.6	0.7	-19%	0.8	-29%	0.5	14%
Tulip Telecom							
Revenue	6,380	6,026	6%	5,307	20%	6,382	0%
EBITDA	1,835	1,715	7%	1,545	19%	1,815	1%
EBITDA margin	28.8%	28.5%	0.3 pp	29.1%	(0.3)pp	28.4%	0.3 pp
Net Income	842	816	3%	754	12%	855	-2%
EPS-reported(INR)	5.2	5.0	3%	4.6	12%	5.3	-2%
Tata Communications							
Revenue	31,750	30,180	5%	29,725	7%	30,154	5%
EBITDA	3,599	3,118	15%	515	599%	NA	NA
EBITDA margin	11.3%	10.3%	1.0 pp	1.7%	9.6 pp	NA	NA
Net Income	-2,004	-1,974	2%	-4,173	NM	NA	NA
EPS-reported(INR)	-7.0	-6.9	2%	-14.6	NM	NA	NA

Source: Company reports, J.P. Morgan estimates, Bloomberg

* Please note Y/Y comparison for Bharti skewed as Q4FY10 is only for India and South Asia

Table 3: Bharti Airtel Limited

Rs in millions, year-end March

	Q4FY11E JPMe	Q3FY11A	Q/Q	Q4FY10A	Y/Y	Q4FY11E consensus	JPMe vs. consensus
<i>Financial estimates</i>							
Wireless	93,451	91,459	2%	83,174	12%		
Telemedia (Fixed line and Broadband)	8,903	9,068	-2%	8,510	5%		
Enterprise	10,742	10,503	2%	10,768	0%		
Passive Infrastructure	22,855	21,972	4%	19,459	17%		
Other	3,452	2,793	24%	2,094	65%		
<u>Eliminations</u>	<u>(19,076)</u>	<u>(18,582)</u>	3%	<u>(16,515)</u>	16%		
Total revenue excluding Africa	120,327	117,213	3%	107,490	12%		
Africa	<u>42,797</u>	<u>40,530</u>	6%	0			
Total consolidated revenue	163,124	157,743	3%	107,490	52%	164,145	-1%
Interconnection / access costs	(21,655)	(20,395)	6%	(11,570)	87%		
License fee and spectrum	(13,686)	(13,517)	1%	(10,594)	29%		
Network operating costs	(34,379)	(32,960)	4%	(24,365)	41%		
Employee Costs	(8,867)	(8,890)	0%	(4,547)	95%		
<u>SG&A</u>	<u>(29,975)</u>	<u>(30,997)</u>	-3%	<u>(15,586)</u>	92%		
Total operating expense	(108,562)	(106,760)	2%	(66,662)	63%		
EBITDA	53,850	49,813	8%	41,294	30%	55,010	-2%
EBITDA margin	33.0%	31.6%	143bps	38.4%	(540 bps)	33.5%	(50 bps)
Net Profit	17,919	13,033	37%	23,624	-24%	16,814	7%
EPS	4.7	3.4	37%	6.2	-24%	4.4	7%
Capex	47,236	43,211	9%	15,061	214%		
Capex/sales	29.0%	27.4%	156bps	14.0%	1,495bps		
<i>Operational estimates(India)</i>							
Wireless subscribers(000s)	162,395	152,495	6%	127,619	27%		
MoU (minutes)	447	449	0%	468	-4%		
ARPM	0.44	0.44	0%	0.47	-6%		
ARPU (INR)	198	198	0%	220	-10%		

Source: Company reports, J.P. Morgan estimates, Bloomberg.

Table 4: Bharti Africa Estimates (excl. Africa Other)

Rs in millions, year end March

	Q4FY11E JPMe	Q3FY11A	Q/Q
Revenue	42,797	40,530	5.6%
Access charges	(8,116)	(7,483)	8.5%
License fee, revenue share & spectrum charges	(1,498)	(1,613)	-7.1%
Network operating costs	(6,718)	(6,632)	1.3%
Employee costs	(3,852)	(3,988)	-3.4%
<u>SG&A</u>	<u>(11,622)</u>	<u>(11,919)</u>	-2.5%
Total operating expense	(31,806)	(31,636)	0.5%
EBITDA	10,991	8,435	30.3%
EBITDA margin	25.7%	20.8%	487bps
Net Profit	1,680	(3,411)	-149.3%
EPS	(0.57)	(0.28)	103.5%
Capex	15,525	13,959	11.2%
Capex/sales	36.3%	34.4%	
<i>Operational estimates</i>			
Wireless subscribers(000s)	45,124	42,124	7.1%
MoU (minutes)	125	120	4.5%
ARPM (INR)	2.61	2.71	-3.6%
ARPU (INR)	327	325	0.7%

Source: Company reports, J.P. Morgan estimates.

Table 5: Reliance Communications

Rs in millions, year-end March

	Q4FY11E JPMe	Q3FY11A	Q/Q	Q4FY10A	Y/Y	Q4FY11E consensus	JPMe vs. consensus
<i>Financial estimates</i>							
Wireless	41,052	40,644	1%	40,900	0%		
Global	19,845	19,233	3%	20,278	-2%		
Broadband	6,306	6,184	2%	6,798	-7%		
Others	3,556	3,107	14%	2,845	25%		
<u>Eliminations</u>	(19,484)	(19,127)	2%	(19,894)	-2%		
Total revenue	51,275	50,041	2%	50,927	1%	51,443	0%
Interconnection cost	(7,392)	(6,640)	11%	(6,293)	17%		
Employee cost	(3,566)	(3,558)	0%	(3,396)	5%		
SG&A	(7,976)	(7,840)	2%	(7,300)	9%		
Network operating costs	(12,579)	(12,493)	1%	(15,251)	-18%		
<u>License fee and spectrum</u>	(2,984)	(2,830)	5%	(2,668)	12%		
Total operating expense	(34,496)	(33,361)	3%	(34,908)	-1%		
EBITDA	16,779	16,680	1%	16,019	5%	17,440	-4%
EBITDA margin	32.7%	33.3%	(61 bps)	31.5%	127bps	33.9%	(118 bps)
Net Profit	3,757	4,803	-22%	12,194	-69%	3,134	20%
EPS (INR)	1.82	2.33	-22%	5.91	-69%	1.52	20%
Capex	9,488	19,140	-50%	8,785	8%		
Capex/sales	18.5%	38.2%	(1,974 bps)	17.3%	125bps		
<i>Operational estimates</i>							
Wireless subscribers(000s)	241	251	-4%	318	-24%		
MoU (minutes)	0.44	0.44	-1%	0.44	0%		
ARPM	106	111	-5%	139	-24%		
ARPU (INR)	41,052	40,644	1%	40,900	0%		

Source: Company reports, J.P. Morgan estimates, Bloomberg.

Table 6: Idea Cellular Limited

Rs in millions, year-end March

	Q4FY11E JPMe	Q3FY11A	Q/Q	Q4FY10A	Y/Y	Q4FY11E consensus	JPMe vs. consensus
Revenue	41,630	39,556	5%	33,478	24%	41,905	-1%
Interconnection cost	(6,821)	(6,356)	7%	(5,064)	35%		
License fee and spectrum	(4,748)	(4,529)	5%	(3,578)	33%		
Network operating costs	(10,780)	(9,936)	8%	(8,564)	26%		
Employee Costs	(2,136)	(2,072)	3%	(1,558)	37%		
SG&A	(5,971)	(5,440)	10%	(4,760)	25%		
<u>Other</u>	(1,665)	(1,741)	-4%	(1,320)	26%		
Total operating expense	(32,121)	(30,074)	7%	(24,842)	29%		
EBITDA	9,509	9,483	0%	8,636	10%	10,106	-6%
EBITDA margin	22.8%	24.0%	(113 bps)	25.8%	(295 bps)	24.1%	(128 bps)
Net Profit	1,966	2,431	-19%	2,666	-26%	1,727	14%
EPS (INR)	0.60	0.74	-19%	0.84	-29%	0.52	14%
Capex	10,767	9,471	14%	1,332	708%		
Capex/sales	25.9%	23.9%	192bps	4.0%	2,188bps		
<i>Operational estimates</i>							
Wireless subscribers (000s)	89,879	81,779	10%	63,825	41%		
MoU (minutes)	395	401	-2%	398	-1%		
ARPM (INR)	0.41	0.42	-1%	0.46	-11%		
ARPU (INR)	164	168	-3%	185	-12%		

Source: Company reports, J.P. Morgan estimates, Bloomberg.

Table 7: Tulip Telecom

Rs in millions, year-end March

	Q3FY11E JPMe	Q2FY11A	Q/Q	Q3FY10A	Y/Y	Q2FY11E consensus	JPMe vs. consensus
Revenue	6,380	6,026	6%	5,307	20%	6,382	0%
Cost of Goods and Service	(4,097)	(3,888)	5%	(3,301)	24%		
Employees cost	(257)	(237)	8%	(223)	15%		
<u>Other expenditure</u>	(191)	(186)	2%	(238)	-20%		
Total operating expense	(4,544)	(4,311)	5%	(3,762)	21%		
EBITDA	1,835	1,715	7%	1,545	19%	1,815	1%
EBITDA margin	28.8%	28.5%	32bps	29.1%	(34 bps)	28.4%	33bps
Net Profit	842	816	3%	754	12%	855	-2%
EPS(INR)	5.2	5.0	3%	4.6	12%	5.3	-2%
Capex	3,257	1,386	135%	1,089	199%		
Capex/sales	51.1%	23.0%	2,805bps	20.5%	3,053bps		

Source: Company reports, J.P. Morgan estimates, Bloomberg.

Table 8: Tata Communications

Rs in millions, year-end March

	Q3FY11E JPMe	Q2FY11A	Q/Q	Q3FY10A	Y/Y
Revenue	31,750	30,180	5%	29,725	7%
Staff cost	(4,910)	(3,911)	26%	(4,753)	3%
Interconnect, license fee, network cost	(17,855)	(18,198)	-2%	(18,924)	-6%
<u>SG&A costs</u>	<u>(5,385)</u>	<u>(4,953)</u>	9%	<u>(5,534)</u>	-3%
Total Operating Expense	(28,151)	(27,062)	4%	(29,210)	-4%
EBITDA	3,599	3,118	15%	515	599%
EBITDA margin	11.3%	10.3%	100bps	1.7%	960bps
Net Profit	(2,004)	(1,974)	2%	(4,173)	-52%
EPS(INR)	-7.0	-6.9	2%	-14.6	-52%
Capex	4,468	3,622	23%		
Capex/sales	14.1%	12.0%	207bps		

Source: Company reports, J.P. Morgan estimates, Bloomberg.

Companies Recommended in This Report (all prices in this report as of market close on 06 April 2011)

Bharti Airtel Limited (BRTI.BO/Rs353.30/Overweight), Idea Cellular Limited (IDEA.BO/Rs66.75/Underweight), Reliance Communications Limited (RLCM.BO/Rs110.90/Neutral), Tata Communications Ltd (TATA.BO/Rs256.25/Underweight), Tata Communications Ltd (TCL/\$11.54/Underweight), Tulip Telecom Limited (TULP.BO/Rs153.40/Overweight)

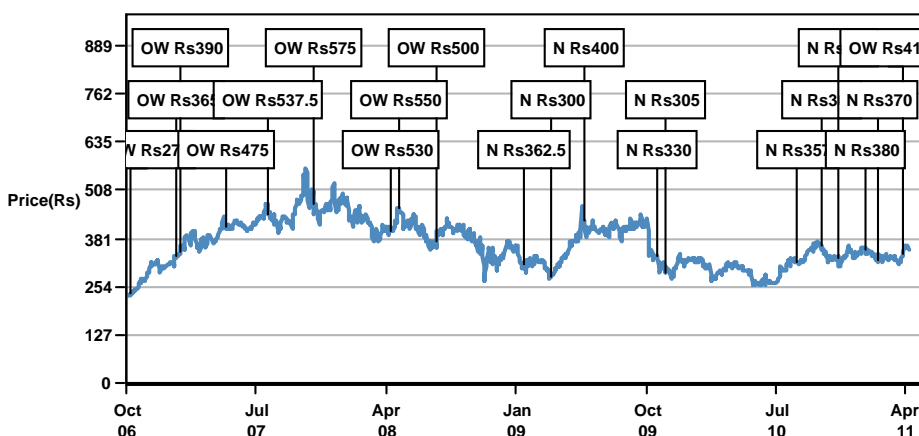
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Important Disclosures

- **Analyst Position:** The following analysts (and/or their associates or household members) own a long position in the shares of Bharti Airtel Limited: Bijay Kumar. The following analysts (and/or their associates or household members) own a long position in the shares of Idea Cellular Limited: Bijay Kumar.
- **Client of the Firm:** Bharti Airtel Limited is or was in the past 12 months a client of JPM; during the past 12 months, JPM provided to the company non-investment banking securities-related service. Idea Cellular Limited is or was in the past 12 months a client of JPM. Reliance Communications Limited is or was in the past 12 months a client of JPM; during the past 12 months, JPM provided to the company investment banking services, non-investment banking securities-related service and non-securities-related services. Tata Communications Ltd is or was in the past 12 months a client of JPM; during the past 12 months, JPM provided to the company non-investment banking securities-related service.
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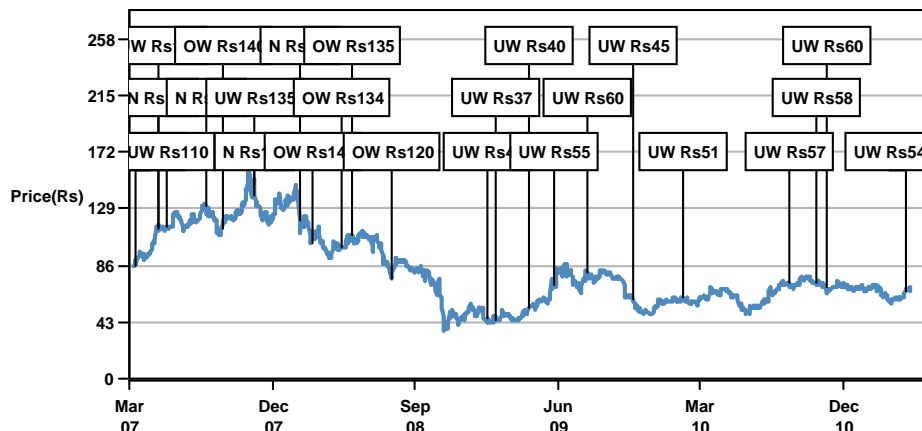
Bharti Airtel Limited (BRTI.BO) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
10-Oct-06	OW	234.20	275.00
14-Jan-07	OW	332.35	365.00
24-Jan-07	OW	344.58	390.00
30-Apr-07	OW	413.12	475.00
27-Jul-07	OW	446.18	537.50
01-Nov-07	OW	471.48	575.00
11-Apr-08	OW	399.35	530.00
28-Apr-08	OW	462.65	550.00
17-Jul-08	OW	374.42	500.00
14-Jan-09	N	312.12	362.50
13-Mar-09	N	279.35	300.00
22-May-09	N	428.92	400.00
22-Oct-09	N	337.05	330.00
10-Nov-09	N	293.40	305.00
16-Aug-10	N	316.95	357.00
04-Oct-10	N	359.85	360.00
11-Nov-10	N	327.05	356.00
07-Jan-11	N	353.20	380.00
03-Feb-11	N	322.80	370.00
28-Mar-11	OW	339.70	410.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
 This chart shows J.P. Morgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
 J.P. Morgan ratings: OW = Overweight, N = Neutral, UW = Underweight.

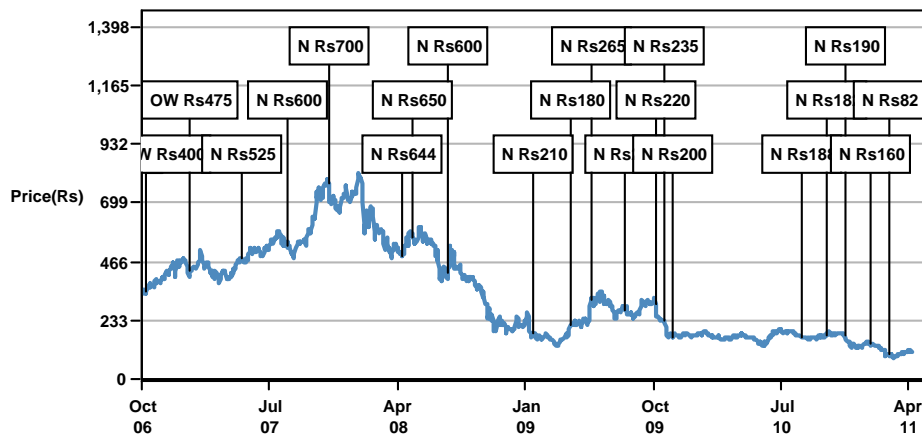
Idea Cellular Limited (IDEA.BO) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
12-Mar-07	N	85.55	90.00
25-Apr-07	N	114.60	105.00
26-Apr-07	UW	116.25	105.00
10-May-07	UW	114.75	110.00
26-Jul-07	N	132.00	140.00
26-Aug-07	OW	113.45	140.00
25-Oct-07	N	146.65	140.00
28-Oct-07	UW	138.60	135.00
22-Jan-08	N	120.25	145.00
13-Feb-08	OW	102.45	145.00
10-Apr-08	OW	99.80	134.00
02-May-08	OW	108.55	135.00
17-Jul-08	OW	76.35	120.00
14-Jan-09	UW	45.50	40.00
01-Feb-09	UW	44.70	37.00
07-Apr-09	UW	53.30	40.00
22-May-09	UW	71.05	55.00
28-Jul-09	UW	79.90	60.00
22-Oct-09	UW	59.80	45.00
27-Jan-10	UW	62.25	51.00
16-Aug-10	UW	72.65	57.00
07-Oct-10	UW	72.65	58.00
27-Oct-10	UW	69.45	60.00
28-Mar-11	UW	65.85	54.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
 This chart shows J.P. Morgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
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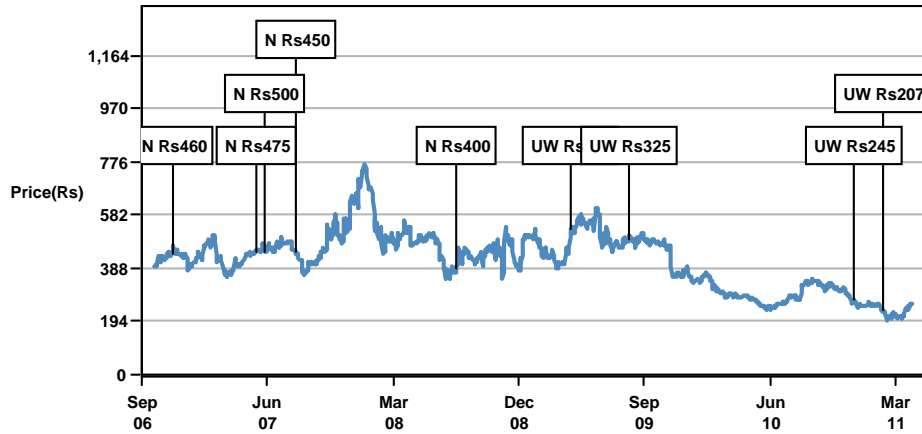
Reliance Communications Limited (RLCM.BO) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
10-Oct-06	OW	344.25	400.00
13-Jan-07	OW	433.75	475.00
02-May-07	N	477.10	525.00
08-Aug-07	N	532.35	600.00
06-Nov-07	N	779.30	700.00
10-Apr-08	N	484.40	644.00
04-May-08	N	561.20	650.00
17-Jul-08	N	417.90	600.00
14-Jan-09	N	185.40	210.00
07-Apr-09	N	218.10	180.00
22-May-09	N	315.55	265.00
02-Aug-09	N	275.65	250.00
06-Oct-09	N	299.80	220.00
22-Oct-09	N	232.65	235.00
10-Nov-09	N	168.75	200.00
16-Aug-10	N	168.10	188.00
07-Oct-10	N	177.55	182.00
16-Nov-10	N	169.90	190.00
07-Jan-11	N	139.75	160.00
16-Feb-11	N	101.55	82.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
 This chart shows J.P. Morgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
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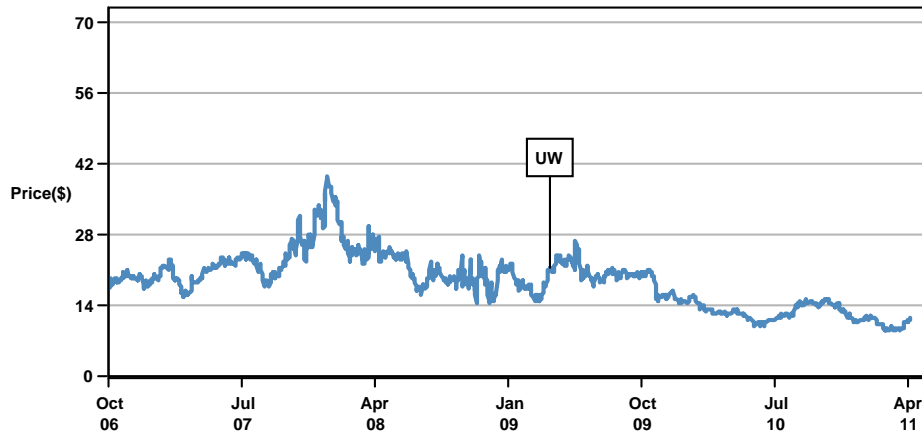
Tata Communications Ltd (TATA.BO) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
06-Nov-06	N	442.35	460.00
10-May-07	N	450.90	475.00
29-May-07	N	448.75	500.00
03-Aug-07	N	448.85	450.00
17-Jul-08	N	384.85	400.00
26-Mar-09	UW	531.05	350.00
29-Jul-09	UW	490.85	325.00
01-Dec-10	UW	272.20	245.00
01-Feb-11	UW	233.05	207.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
 This chart shows J.P. Morgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
 J.P. Morgan ratings: OW = Overweight, N = Neutral, UW = Underweight.

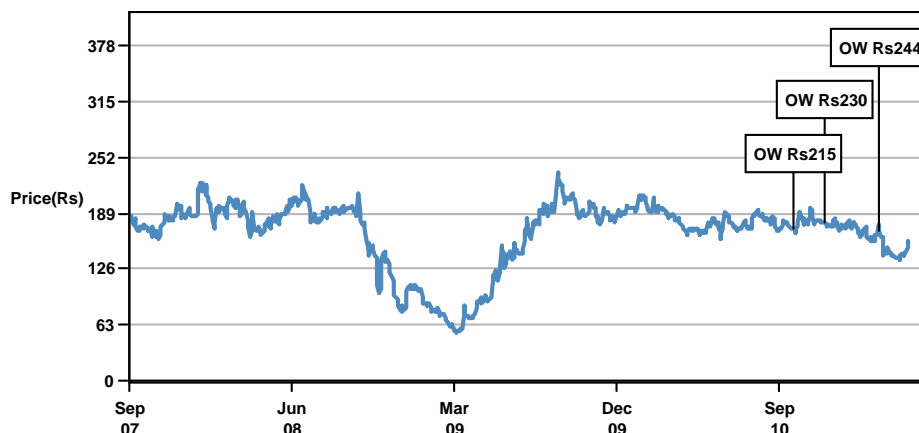
Tata Communications Ltd (TCL) Price Chart



Date	Rating	Share Price (\$)	Price Target (\$)
26-Mar-09	UW	21.40	-

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
 This chart shows J.P. Morgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
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Tulip Telecom Limited (TULP.BO) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
23-Sep-10	OW	171.00	215.00
16-Nov-10	OW	179.20	230.00
16-Feb-11	OW	168.45	244.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
 Initiated coverage Sep 22, 2010. This chart shows J.P. Morgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
 J.P. Morgan ratings: OW = Overweight, N = Neutral, UW = Underweight.

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J.P. Morgan Global Equity Research Coverage	47%	42%	11%
IB clients*	50%	45%	33%
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IB clients*	70%	62%	56%

*Percentage of investment banking clients in each rating category.

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