

UBS Investment Research

India Mobile Sector

India

Wireless Communications

Sector Comment

TATA DOCOMO GSM launch continues

■ Tata DOCOMO launches GSM operations in Mumbai and Maharashtra

Tata DOCOMO launched GSM services in Mumbai & across Maharashtra on 06 Aug'09. The company is banking on its innovative one second pulse tariff plan, vs. 60 second pulse tariff plans offered by most operators in India, as the differentiating factor for garnering subs share. The customers benefit by not paying for unutilized seconds. The introductory tariff plan: Rs0.01/sec for local and NLD calls, Rs0.6/local SMS and Rs1.2/NLD SMS. Tata DOCOMO has launched operations in 7 services areas since its first service launch on 24 June. The company, at present, has operations in Chennai & TN, Kerala, Orissa, Karnataka, AP, Mumbai & Maharashtra. It plans to have a Pan-India services by the year end.

■ Revenue per minute to come under further pressure

We believe the customers might switch to Tata DOCOMO to make NLD calls given its attractive offering. This could further put pressure on rev/min. We are already incorporating rev./min. declines of 12% & 9% during FY10e & FY11e resp. in our assumptions. We believe the Indian mobile market is already highly competitive and the launch of Tata DOCOMO & other operators such as Unitech-Telenor & Swan is likely to intensify competition further only at the margin.

■ Bharti and Idea are our top picks

We believe that Bharti and Idea are likely to continue their positive momentum given their strong brand, good management teams and solid execution. While we are positive on the Indian mobile sector due to the good growth prospects, we recommend investors to hold Bharti or Idea as a core holding.

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Table 1: Valuation comparison

		Market	Target	%	P/E		EPS growth		EV/EBITDA		EBITDA growth	
	Rating	price	price	upside	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E
Bharti	Buy	384	500	30%	15.2	14.0	13%	8%	9.0	8.2	14%	10%
Idea	Buy	73	100	37%	24.0	20.0	5%	20%	8.0	6.6	27%	22%
RCOM	Buy	255	360	41%	10.1	8.5	-11%	19%	7.0	5.4	19%	28%

Source: UBS estimates; Note: Priced on the close of 07 Aug, 2009

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ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 3.

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Table 2: Lifetime prepaid base plans available in Mumbai

	Aircel	Airtel	RCOM (GSM)	Tata DOCOMO	Idea	Vodafone
Starter pack cost	Rs99	Rs49+Rs2 echarge for lower tariff	Rs95 (includes first time recharge of Rs46)	Rs49	Rs99	Rs99
Free talk time	Rs10	Nil	Rs20	Rs5	Rs10	Rs10
Local call charge	Rs1 for 1st min Rs0.5 for 2nd min Rs0.3 for 3rd min onwards	Rs1.0 for 1 st min. of the day Rs0.6 from then on	Rs0.30**/Rs0.60/min **Local on-net calls	Rs0.01/sec	Rs1.0 for 1 st min. of the day Rs0.6 from then on	Rs1.0 for 1 st min. of the day Rs0.6 from then on
National long distance call charge	Rs1.5 for 1st min Rs1.0 for 2nd min Rs0.75 for 3rd min onwards	Rs1.5 for 1 st min. of the day Rs1.0 from then on	Rs1/min	Rs0.02/sec	Rs1.5 for 1 st min. of the day Rs1.0 from then on	Rs1.5 for 1 st min. of the day Rs1.0 from then on
Additional Features		(i) Charges valid for 5 months (ii) After 5 months base tariffs are applicable	(i) Local on-net calls at Rs0.05/min at Night (ii) Charges valid for 3 months (iii) After 3 months base tariffs are applicable	(i) NLD calls at Rs0.01/sec*** (ii) 1st 3 SMS charged (@Rs0.6/SMS) and then 100 local SMS free per day**** ****Limited period offer	(i) Charges valid for 5 months (ii) After 5 months base tariffs are applicable	(i) Charges valid for 5 months (ii) After 5 months base tariffs are applicable

Source: Company data, UBS

Table 3: Cost of a local call in Mumbai under prepaid plans (Rs)

Call Duration	Aircel	Tata-DOCOMO	RCOM	Bharti	Idea	Vodafone
0-1min	1.0	0.01-0.6	0.6	0.6	0.6	0.6
2-3 min	1.8	1.21-1.8	1.8	1.8	1.8	1.8
4-5 min	2.4	2.41-3.0	3.0	3.0	3.0	3.0
9-10 min	3.9	5.41-6.0	6.0	6.0	6.0	6.0

Source: Company data, UBS

Table 4: Cost of a NLD call in Mumbai under prepaid plans (Rs)

Call Duration	Aircel	Tata DOCOMO*	Tata DOCOMO	RCOM	Bharti	Idea	Vodafone
0-1min	1.5	0.01-0.6	0.02-1.2	1.0	1.0	1.0	1.0
2-3 min	3.3	1.21-1.8	2.42-3.6	3.0	3.0	3.0	3.0
4-5 min	4.8	2.41-3.0	4.82-6.0	5.0	5.0	5.0	5.0
9-10 min	8.5	5.41-6.0	10.82-12.0	10.0	10.0	10.0	10.0

Source: Company data, UBS Note: * under the limited period promotional offer

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

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UBS 12-Month Rating	Rating Category	Coverage ¹	IB Services ²
Buy	Buy	44%	38%
Neutral	Hold/Neutral	39%	36%
Sell	Sell	17%	25%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
Buy	Buy	less than 1%	33%
Sell	Sell	less than 1%	33%

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

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

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

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

Source: UBS. Rating allocations are as of 30 June 2009.

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

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

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

Additional Prices: Bharti Airtel Ltd., Rs399.30 (06 Aug 2009); Idea Cellular, Rs76.00 (06 Aug 2009); Reliance Communication Limited, Rs270.40 (06 Aug 2009); Spice Communications, Rs62.10 (06 Aug 2009); Source: UBS. All prices as of local market close.

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