

Videocon launch is not disruptive

■ Videocon Telecom launches in Tamil Nadu

Videocon has launched mobile services in Tamil Nadu and is likely to launch services in 5 more service areas over next two weeks. It plans to invest Rs140bn over next three years and targets to get 100m subs. Videocon has launched 1p/sec tariff for local & long distance for recharge of Rs31/year (Rs25 talk time) or Rs61/year (Rs56 talk time). For medium usage subs, it has launched 1p/sec plan for local & long distance calls with 30mins each of local on-net and local off-net calls free per day for Rs149/month. For very heavy usage subs, it has launched unlimited local usage for free and NLD at Rs1/sec for recharge of Rs399/month.

■ UBS view: Videocon launch unlikely to intensify price competition

We believe Videocon's per second plans (FRC31 and FRC61) are not disruptive as it leads to voice rev/min of Rs0.41/min. Videocon seems to target medium to heavy local call users with its plans FRC149 & FRC399. Assuming 1,000 mins of use per month (MOU) and local calls at 90% of total calls, voice rev/min for FRC399 plan comes out to Rs0.51/min. FRC149 plan leads to rev/min of Rs0.41/min assuming MOU at 500 mins. Our analysis suggests that these plans are not disruptive as the average MOU for a vast majority of the prepaid users is 200-300 mins. We think reaching a critical mass in terms of minutes carried could be an uphill task for Videocon and other new entrants.

■ Buy on Bharti and Idea with SoTP based price target of Rs420 and Rs80

We believe new operators have no business case & India mobile sector is likely to consolidate in next 18-24 months. We believe the current stock prices of Bharti & Idea discount the gloomy near-term outlook.

Table 1: Valuation comparison

	Market	Target	%	Market cap	Net debt	P/E	EPS growth		EV/EBITDA		EBITDA growth			
	Rating	price	price	upside	(m, USD)	(m, USD)	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E		
Bharti	Buy	310	420	35%	26,009	547	14.6	14.2	-11%	3%	7.9	7.4	-3%	7%
Idea	Buy	66	80	20%	4,846	1,479	33.6	29.1	-25%	15%	7.6	6.8	12%	12%

Source: Bloomberg, UBS estimates; Priced on close of March 26, 2010

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Table 2: Videocon prepaid tariff plans in Tamil Nadu

	FRC 31	FRC 61	FRC 149	FRC 399
Starter pack cost (Rs)	Rs31	Rs61	Rs149	Rs399
Free talk time (Rs)	Rs25	Rs61	Rs0	Rs0
Local call charge	Rs 0.01/Sec	Rs 0.01/Sec	Rs 0.01/Sec	Nil
National long distance call charge	Rs 0.01/Sec	Rs 0.01/Sec	Rs 0.01/Sec	Rs 0.01/Sec
Validity	365 days	365 days	30 days	30 days
Additional Features		30 min of local off-net, 30 min of local on-net calling per day		Unlimited local usage

Source: Company website

Table 3: Revenue per minute analysis for Videocon prepaid tariff plans

	FRC31	FRC61	FRC149 Scenario 1	FRC149 Scenario 2	FRC149 Scenario 3	FRC399 Scenario 1	FRC399 Scenario 2	FRC399 Scenario 3
MOU (mins) (UBS assumption)	350	350	350	500	800	750	1000	1500
Incoming MOU as % of total (UBS assumption)	45.0%	45.0%	45.0%	45.0%	45.0%	45.0%	45.0%	45.0%
On-net traffic as % to total (UBS assumption)	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%
Incoming MOU (mins)	157.5	157.5	157.5	225.0	360.0	337.5	450.0	675.0
Incoming minutes off-net (mins)	94.5	94.5	94.5	135.0	216.0	202.5	270.0	405.0
Outgoing MOU (mins)	192.5	192.5	192.5	275.0	440.0	412.5	550.0	825.0
Outgoing MoU - On-net	77.0	77.0	77.0	110.0	176.0	165.0	220.0	330.0
Local termination charges (Rs/min)	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
NLD/ILD termination charges (Rs/min)	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Blended IUC charges (Rs/min)	0.23	0.23	0.22	0.22	0.22	0.22	0.22	0.22
Revenue from incoming off-net calls (Rs)	21.5	21.5	20.8	29.7	47.5	44.6	59.4	89.1
Local calls % of outgoing MoU (UBS assumption)	86.0%	86.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%
NLD calls % of outgoing MoU (UBS assumption)	13.5%	13.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%
ILD calls % of outgoing MoU (UBS assumption)	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Local on-net tariff (Rs/min)	0.60	0.60	0.00	0.00	0.00	0.00	0.00	0.00
Local off-net tariff (Rs/min)	0.60	0.60	0.00	0.00	0.00	0.00	0.00	0.00
NLD on-net tariff (Rs/min)	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60
NLD off-net tariff (Rs/min)	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60
ILD tariff (Rs/min)	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Revenue from outgoing calls (Rs)	122.6	122.6	18.7	26.7	42.7	40.0	53.4	80.0
Revenue from extra charges (Rs)	0.0	0.0	149.0	149.0	149.0	399.0	399.0	399.0
Total revenue from outgoing calls (Rs)	122.6	122.6	167.7	175.7	191.7	439.0	452.4	479.0
Total revenue (outgoing & interconnect) (Rs)	144.2	144.2	188.5	205.4	239.2	483.6	511.8	568.1
Gross realized revenue per minute	0.41	0.41	0.54	0.41	0.30	0.64	0.51	0.38

Source: Company data, UBS estimates

■ **Statement of Risk**

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. **Bharti Airtel:** We believe Bharti faces execution risk in light of the rapid growth of India's mobile subscriber base. The company recently announced a shift in strategy and will focus on overseas acquisitions as another means of creating shareholder value. While Bharti's management has historically had good discipline when it comes to investing capital, we believe there is a risk of Bharti overpaying for acquisitions, given that there are typically multiple bidders in most transactions. **Idea:** There is low visibility for capex associated with the new circles as it will depend on the amount of spectrum allocated as well as which circles are likely to be allocated spectrum.

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Buy	Buy	48%	40%
Neutral	Hold/Neutral	40%	35%
Sell	Sell	13%	26%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
Buy	Buy	less than 1%	17%
Sell	Sell	less than 1%	67%

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

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

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

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

Source: UBS. Rating allocations are as of 31 December 2009.

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Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
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UBS Securities India Private Ltd: Suresh A Mahadevan, CFA; Nupur Agarwal.

Company Disclosures

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Bharti Airtel Ltd. ³	BRTI.BO	Buy	N/A	Rs313.75	25 Mar 2010
Idea Cellular	IDEA.BO	Buy	N/A	Rs66.40	25 Mar 2010
Reliance Communication Limited ^{1, 2, 4, 5}	RLCM.BO	Restricted	N/A	Rs169.05	25 Mar 2010

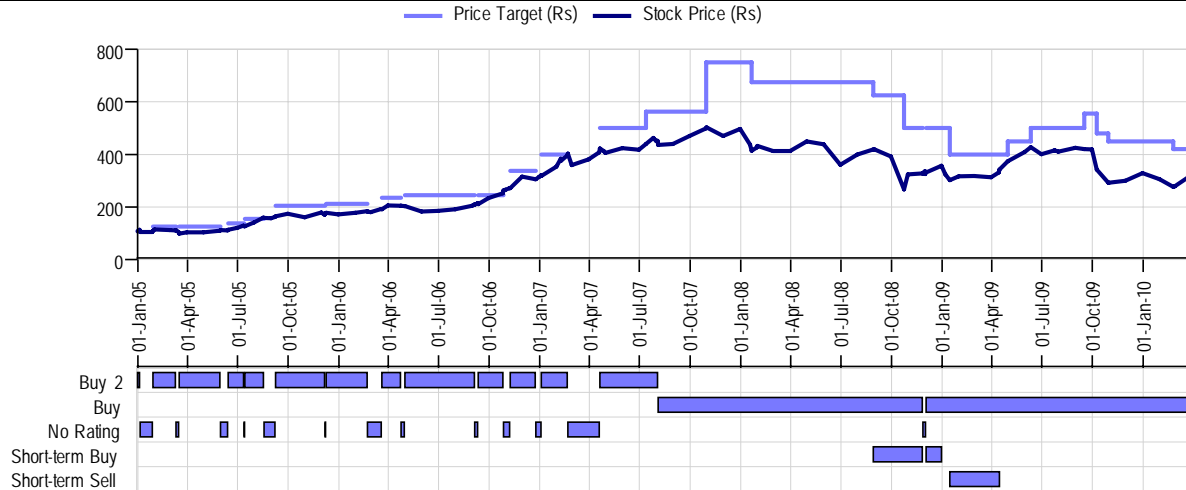
Source: UBS. All prices as of local market close.

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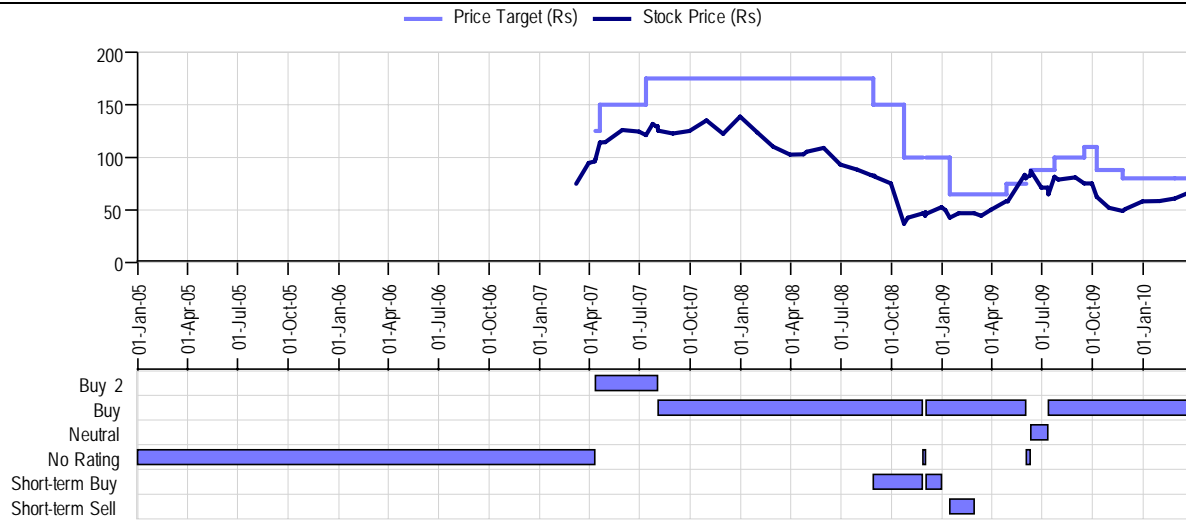
Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Bharti Airtel Ltd. (Rs)



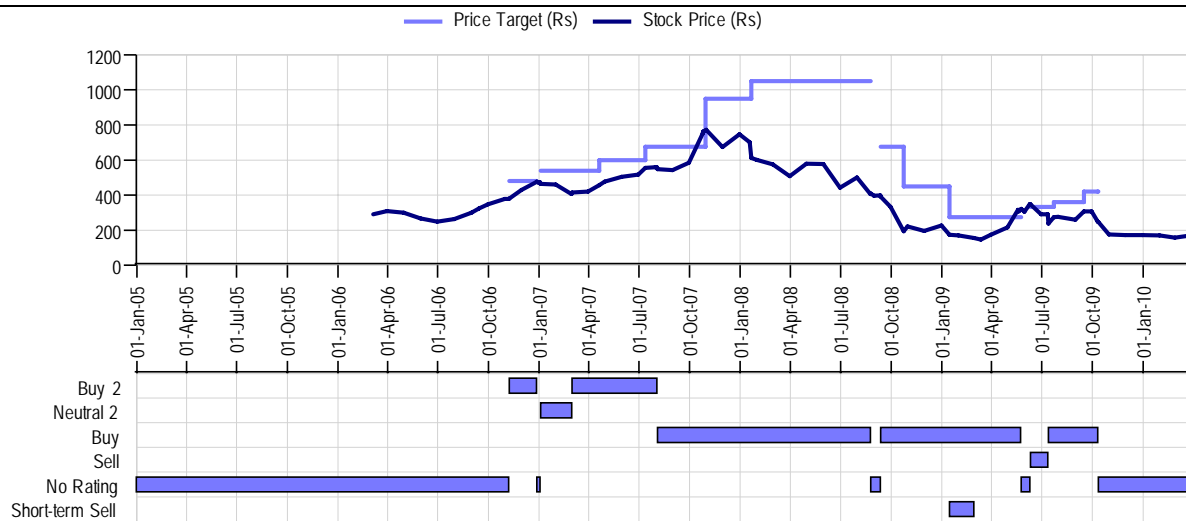
Source: UBS; as of 25 Mar 2010

Idea Cellular (Rs)



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