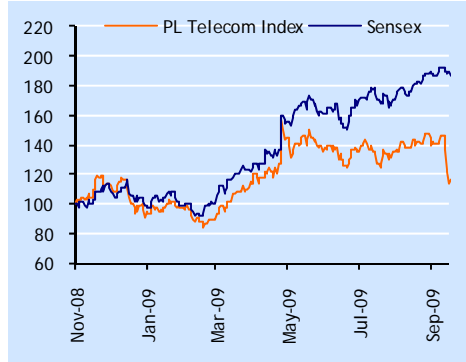


November 23, 2009

Sensex v/s PL Telecom Index



Source: Bloomberg

Absolute Stock Performance

(%)	1M	6M	12M
Sensex	(0.1)	20.9	88.3
Telecom Index	(15.5)	(30.2)	(6.3)
Bharti Airtel	(11.4)	(31.7)	(5.2)
Reliance Comm.	(24.9)	(45.4)	(16.3)
Idea Cellular	(14.4)	(29.4)	14.4

Key Financials

	CMP (Rs)	Rating	EPS (Rs)			EPS CAGR 09-11 (%)	PER (x)			EV/EBITDA (x)		
			FY09	FY10E	FY11E		FY09	FY10E	FY11E	FY09	FY10E	FY11E
Bharti Airtel	289	Reduce	22.0	23.2	21.2	(1.7)	13.1	12.4	13.6	7.9	7.2	6.9
Reliance Comm.	174	Reduce	28.6	17.7	17.0	(23.0)	6.1	9.8	10.3	6.9	8.5	7.8
Idea Cellular	51	Reduce	2.7	2.9	2.6	(0.5)	19.0	17.8	19.2	7.0	7.7	6.9

(Prices as on November 20, 2009)

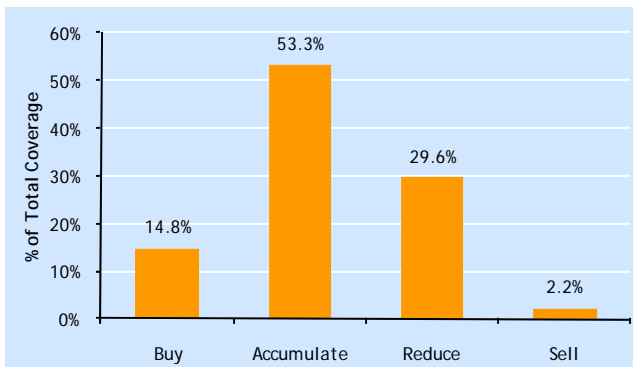
- **Mobile Number Portability (MNP) to be introduced in Metros & A circles by end of year:** MNP shall be implemented by December 31, 2009 in the Metros & A circles and by March 20, 2010 across the country as per the latest notification by sector regulator TRAI. The porting charges per subscriber are fixed at Rs19 and the porting time capped at 4 days.
- **To bring in level playing field for new operators:** Lower porting charges of just Rs19 (v/s expectation varying from Rs75-250) would help new rollouts to attract high-end subscribers with lucrative offerings. This move will result in competition to emerge in the post-paid segment, which has been largely insulated from tariff cuts due to the very nature of the subscriber profile. Though majority of the subscriber base (~95%) today is pre-paid (which is inherently in MNP), deal-seekers in this segment are on a continuous move to seek either freebies or lower tariffs.
- **Incumbents will have to lower the tariffs in post-paid segment as well:** Most of the tariff cuts and new price schemes are available for the pre-paid segment only. Closed user group (CUG)/corporate clients are still at a higher price points as compared to the Reliance Simple Rs0.5/minute plan or the per second billing schemes doled out by various operators.
- **Quality of service and competitive tariffs to differentiate in the longer term:** We believe that the network quality, competitive tariffs and after sales service to be the key differentiator amongst the prospective gainers over the long term. Globally, MNP has been a no-event after the high level (8-10%) churn in the first year and then plateaus at around 2-3% annually.
- **Outlook:** We would be wary of telecom stocks in the short term, considering the eagerness of RCom & Tata to garner traffic on to their networks by lowering tariffs. This would have an impact on all incumbents like Bharti, Vodafone and Idea in the short term, considering some flight of paid minutes to competition. Further, new rollouts like Etilat DB and Unitech Telenor with deep pockets would be coming up with their launches over the next 3-6 months, which may further heighten competition. By cutting roaming tariffs by 60% in the last week to nearly match what RCom's simple plan is offering, Bharti too has jumped in the tariff war and fighting hard to sustain its revenue market share. The uncertainty in the current scenario over tariffs continues to weigh on our recommendation. We maintain the sector stance of 'Reduce'.

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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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