

Industry Flash

25 February 2009 | 5 pages

India Wireless

Service Tax Cut: Mildly Positive; Cushion for FY10E

- **Reduced from 12% to 10%** — Service tax is included in the final consumer bill so the reduction would reduce the outgo for postpaid and increase the net talktime available for the pre-paid subs. All other things remaining equal and if the tax cut is not reversed by the new government, it could provide some cushion for APRUs in FY10E (Citi estimates a 7% YoY decline).
- **Pre-paid ARPUs could get some support** — Pre-paid market works on the popular recharge coupon denominations (Rs100, 150, 200, etc.) which may not get revised downwards. Instead, user will get more talktime for the same coupon. If the average user is comfortable with his monthly spend, this could end up lifting his usage to consume the enhanced talktime. In some high value recharges, operators bear the service tax cost, which will now get reduced.
- **Pre-paid is 93-95% of subs & 80% of revenues** — Though pre-paid is a large percentage of revenues, it is difficult to gauge how much of the 2% cut would translate into higher usage/ARPU vs. savings to the subscriber. However, it could definitely provide some cushion against the ARPU decline from reducing tariffs (Citi estimates a rev/min decline of 11% in FY10).
- **Bharti is our top pick**

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Figure 1. India wireless – Statistical Abstract

Company name	Rating	M Cap	Price (Rs)	P/E (x)		EV/EBITDA (x)	
		US\$M	25-Feb-09	FY09E	FY10E	FY09E	FY10E
Bharti (BRTI.BO)	1L	24,524	642	15.0	11.8	8.5	6.4
RCOM (RLCM.BO)	3H	6,412	154	5.3	8.3	6.2	6.5
Idea (IDEA.BO)	2H	3,052	49	16.7	17.2	7.3	6.4

Source: Citi Investment Research estimates

See Appendix A-1 for Analyst Certification and important disclosures.

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Appendix A-1

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Ratings and Target Price History Fundamental Research

Analyst: Rahul Singh

Covered since April 28 2006

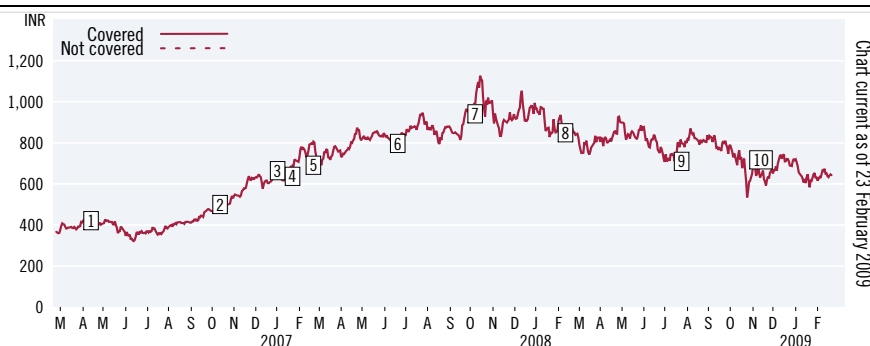


Chart current as of 23 February 2009

	Date	Rating	Target Price	Closing Price
1	13-Apr-06	1M	*500.00	395.95
2	12-Oct-06	*1L	*600.00	475.65
3	2-Jan-07	1L	*750.00	633.00
4	23-Jan-07	1L	*800.00	689.15

	Date	Rating	Target Price	Closing Price
5	21-Feb-07	1L	*960.00	806.30
6	20-Jun-07	1L	*1,050.00	824.65
7	8-Oct-07	1L	*1,200.00	984.80
8	12-Feb-08	1L	*1,150.00	855.80

	Date	Rating	Target Price	Closing Price
9	24-Jul-08	1L	*1,070.00	797.95
10	13-Nov-08	1L	*900.00	631.25

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

IDEA Cellular (IDEA.BO)

Ratings and Target Price History Fundamental Research

Analyst: Rahul Singh

Covered since April 12 2007



Chart current as of 21 February 2009

	Date	Rating	Target Price	Closing Price
1	12-Apr-07	*1L	*112.00	98.15
2	20-Jun-07	1L	*140.00	115.15
3	8-Oct-07	1L	*155.00	131.80

	Date	Rating	Target Price	Closing Price
4	6-Nov-07	*2L	*140.00	130.10
5	12-Feb-08	*1L	140.00	106.25
6	24-Jul-08	1L	*120.00	87.65

	Date	Rating	Target Price	Closing Price
7	20-Oct-08	*2M	*70.00	61.80
8	21-Nov-08	*2H	*56.00	44.20

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Reliance Communications (RLCM.BO)

Ratings and Target Price History Fundamental Research

Analyst: Rahul Singh
Covered since May 30 2006



Date	Rating	Target Price	Closing Price
1 29-May-06	*1M	*360.00	276.25
2 12-Oct-06	1M	*430.00	345.95
3 2-Jan-07	1M	*570.00	470.75
4 9-Apr-07	1M	*510.00	415.60

* Indicates change

Date	Rating	Target Price	Closing Price
5 20-Jun-07	1M	*600.00	505.90
6 8-Oct-07	*1L	*750.00	640.90
7 6-Nov-07	*2L	*835.00	745.40
8 12-Feb-08	*1L	*760.00	575.70

Date	Rating	Target Price	Closing Price
9 31-Jul-08	*2L	*530.00	500.05
10 2-Nov-08	*2H	*270.00	220.70
11 26-Jan-09	*3H	*150.00	160.15

Rating/target price changes above reflect Eastern Standard Time

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