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- Telecom Ministry's final decision on 2G pricing within three months
- DoT to PAC: Termination notices for 85 new licences issued
- Government appoints special court to try 2G scam
- Government collects Rs3.1b in penalties from new operators

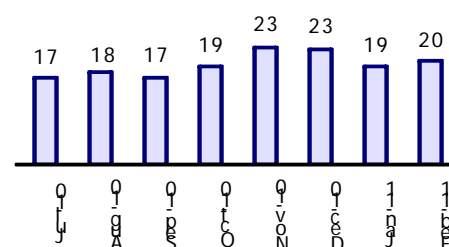
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Speed Dial: Monthly Summary (March 2011)

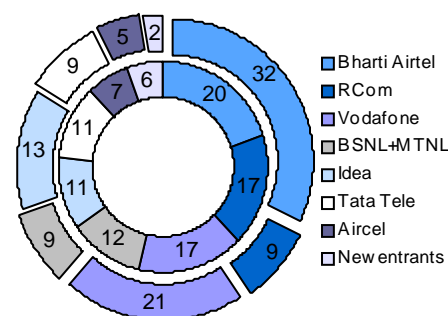
- 4QFY11 to be a stable quarter with 2-4% QoQ revenue growth for Bharti/Idea/RCom driven by robust traffic growth (5-7% QoQ for Bharti/Idea).
- We expect a modest step-up in RPM pressure in 4Q (RPM decline of 2-3% QoQ) v/s 1-2% decline for GSM incumbents in the last two quarters.
- Industry subscriber net adds have returned to normalized levels of 19m-20m in January-February 2011.
- Most of the major operators have launched 3G in select cities; rollout across major cities in 3G footprint is likely to be completed in 1QFY12.
- MNP is unlikely to be a game changer, given the largely pre-paid nature of the Indian market and high churn levels.
- Ongoing policy revamp (regulatory reforms) could drive consolidation, which is a positive for GSM incumbents.
- Revenue and EBITDA growth is likely to rebound in FY12, driven by robust traffic growth, lower RPM decline and launch of 3G services
- At an EV of 5.5-6.2x FY13E proportionate EBITDA, sector valuations remain attractive.

Gallery

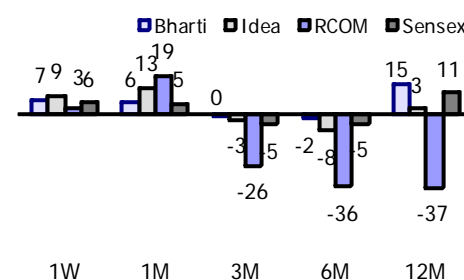
Industry wireless net additions (m)



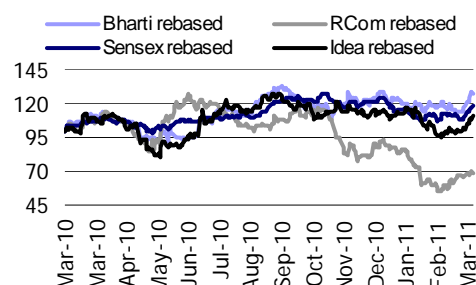
Feb-11 subscriber market share (inner) and 3QFY11 AGR market share (outer)



Absolute performance (%)



Stock price performance v/s Sensex



Comparative valuations

	CMP (Rs)	Rating	Mcap (US\$b)	EV (US\$b)	P/E (x)			EV/EBITDA (x)			EV/Sales (x)		
					FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E
Bharti *	360	Buy	30.6	43.7	21.9	16.8	12.9	10.1	7.6	6.2	3.4	2.8	2.3
Idea	70	Buy	5.2	7.7	26.5	30.6	15.8	9.3	7.3	5.5	2.2	1.9	1.5
RCom	112	Neutral	5.2	12.6	14.7	16.1	14.0	8.5	6.9	5.8	2.8	2.3	2.0

* Proportionate EV/EBITDA



Special In The Month

Telecom: Expectations from 4QFY11

- **Stable quarter; 3G spectrum amortization and interest costs from 1QFY12:** We expect 4QFY11 to be a stable quarter, with traffic growth remaining strong but a modest step-up in RPM pressure. 4Q has 90 days as against 92 days in 3Q; this will negatively impact revenue growth as well as margins. Our industry interactions indicate limited impact of MNP; however pre-paid as well as post paid tariffs have seen some moderation due to circle level disruptions, especially in the long distance segment. 3G launch has been back ended for most operators, resulting in limited P&L impact from capitalization of 3G spectrum fee on 4QFY11 results; full impact is likely from 2QFY12.
- **Traffic growth continues to be strong; slight pressure on tariffs:** We expect RPM decline of 2-3% QoQ v/s 1-2% decline for GSM incumbents in the last two quarters and an average decline of 7-8% QoQ in the preceding three quarters. We expect Bharti (ex- Africa) to report revenue growth of 2.6% QoQ, driven by ~5% mobile traffic growth. On a consolidated basis, we expect 2.8% QoQ revenue growth for Bharti. We expect QoQ revenue growth of 2% for RCom and 4% for Idea.
- **Core margin to remain stable:** We expect EBITDA margin to remain largely stable QoQ, as positive impact of revenue growth would be offset by increased spending on network rollout (2G as well as 3G), promotions and subscriber acquisition/retention measures, especially on 3G/MNP. We model ~50bp core margin increase for Bharti (ex-Africa) on a normalized basis (not including re-branding expenditure incurred in 3QFY11), flat margin for Idea and ~30bp decline for RCom (likely better margins in non-wireless). For Bharti's Africa business, we model EBITDA margin of 21.2%, which implies a 200bp QoQ decline on a normalized basis (excluding re-branding).
- **QoQ PAT growth for Bharti in absence of re-branding expenses; flat PAT for Idea; decline for RCom:** For Bharti, we expect consolidated PAT to grow 23% QoQ in the absence of Rs3.4b re-branding costs incurred in 3QFY11. For Idea, we expect PAT to remain flat QoQ at Rs2.5b, as EBITDA growth of ~4% would be offset by increase in interest costs. RCom's proforma net profit is likely to decline by 50% QoQ mainly due to assumption of normalized tax rate and finance costs. For Bharti, we expect 22% YoY decline in consolidated PAT and 5% YoY decline in ex-Africa PAT. PAT is likely to decline 78% YoY for RCom and 8% YoY for Idea.
- **Subscriber additions back to normalized level of 19m-20m:** Industry subscriber net adds were 19m-20m in January-February 2011 v/s an average of 21.5m in 3QFY11, mainly due to decline in subscriber additions for BSNL, Uninor, Videocon, and S Tel.
- **MNP update:** Recent TRAI data on MNP (launched 20 January 2011) status suggest

increase in porting requests to 3.8m (0.5% of subscriber base) as of 28 February v/s 1.7m (0.2% of subscriber base) as of 15 February. While the MNP-induced churn is insignificant as of now, full impact of MNP is likely to be visible only post two quarters of launch. We continue to believe that MNP is unlikely to be a game changer, given the largely pre-paid nature of the Indian market (>96% of subscriber base) and high churn levels (50-120% per year).

Please refer to our detailed report dated 25 March 2011



- 3G rollout progressing well, but slightly back-ended:** Most of the major operators have launched 3G in select cities; rollout across major cities in 3G footprint is likely to be completed in 1QFY12. Bharti has already launched in more than 15 cities and plans to take its 3G coverage to 40 cities in the near term. We expect 3G to contribute 1-2% to mobile revenue in FY12 and 3-4% in FY13.
- Valuation and view:** Ongoing policy revamp (regulatory reforms) could drive consolidation, which is a positive for GSM incumbents. We believe market mechanism could lead to price discovery of 2G spectrum at lower than 3G/TRAI valuations, as potential 2G spectrum supply has increased. Revenue and EBITDA growth is likely to rebound in FY12, driven by robust traffic growth, lower RPM decline and launch of 3G services.

Expected quarterly performance summary

(Rs million)

	CMP (Rs) 25.03.11	Rating	Sales			EBITDA			Net profit		
			Mar.11	Var. % YoY	Var. % QoQ	Mar.11	Var. % YoY	Var. % QoQ	Mar.11	Var. % YoY	Var. % QoQ
Bharti Airtel	339	Buy	162,000	50.7	2.8	54,290	33.0	9.0	16,023	-21.6	22.9
Idea Cellular	64	Buy	41,086	22.7	3.9	9,847	6.6	3.8	2,464	-7.6	1.4
Reliance Comm	107	Neutral	50,867	-0.1	1.7	16,805	4.9	0.7	2,539	-77.7	-51.7
Tulip Telecom	142	Buy	6,382	20.3	6.0	1,851	19.8	7.9	855	7.6	4.6
Sector Aggregate			260,335	32.0	2.8	82,792	22.4	6.6	21,881	-38.0	1.6



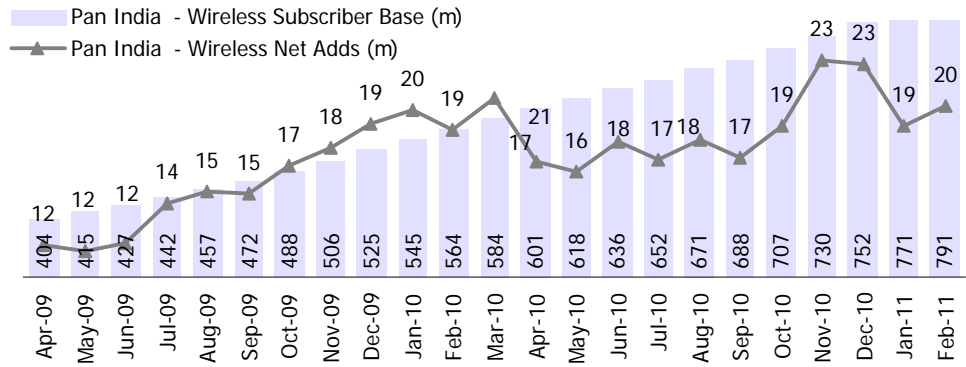
Statistical Review

Monthly trend analysis

February 2011

Pan India trend of wireless subscriber base, net adds (m)

Wireless industry recorded net adds of 19-20m in Jan/Feb-11 (v/s 23m in Nov/Dec-10)

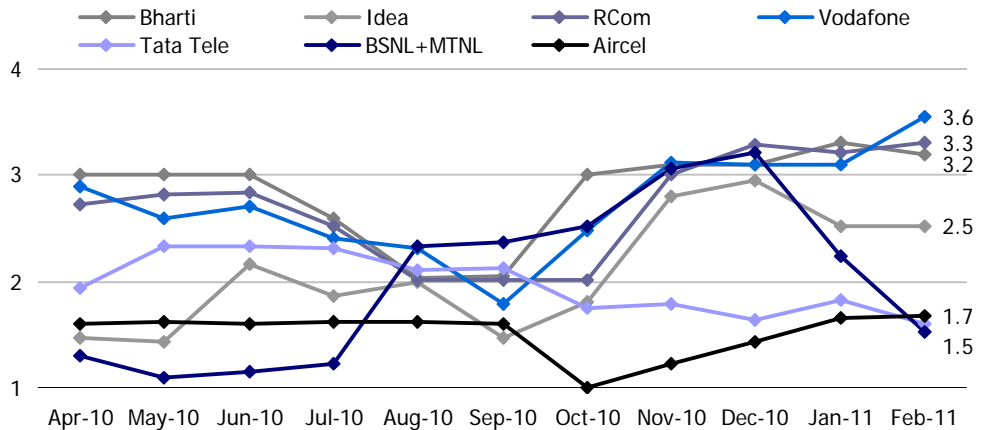


Operator-wise wireless net adds (m)

	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11	MoM (%)
Bharti	2.0	2.0	3.0	3.1	3.1	3.3	3.2	(3.0)
Vodafone	2.3	1.8	2.5	3.1	3.1	3.1	3.6	14.4
BSNL	2.3	2.3	2.5	3.0	3.2	2.2	1.5	(31.6)
IDEA (incl. Spice)	2.0	1.5	1.8	2.8	3.0	2.5	2.5	0.0
Aircel	1.6	1.6	1.0	1.2	1.4	1.7	1.7	0.3
MTNL	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(31.4)
Reliance Comm	2.0	2.0	2.0	3.0	3.3	3.2	3.3	2.7
Tata Tele	2.1	2.1	1.7	1.8	1.6	1.8	1.6	(11.9)
Sistema	0.5	0.5	0.5	0.7	0.7	0.7	0.5	(21.6)
HFCL	0.1	0.1	0.1	0.3	0.2	(0.3)	0.1	(131.5)
Loop Mobile	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(2.2)
Uninor	2.2	2.2	2.5	2.4	2.3	1.8	1.3	(29.2)
S Tel	0.1	0.1	0.2	0.2	0.2	0.2	0.2	(10.8)
Etisalat DB	0.0	0.0	0.0	0.1	0.1	0.2	0.2	6.5
Videocon	0.9	0.8	1.1	1.1	0.6	(1.3)	0.6	(142.3)
Total	18.2	17.2	19.0	22.9	22.8	19.1	20.2	5.9

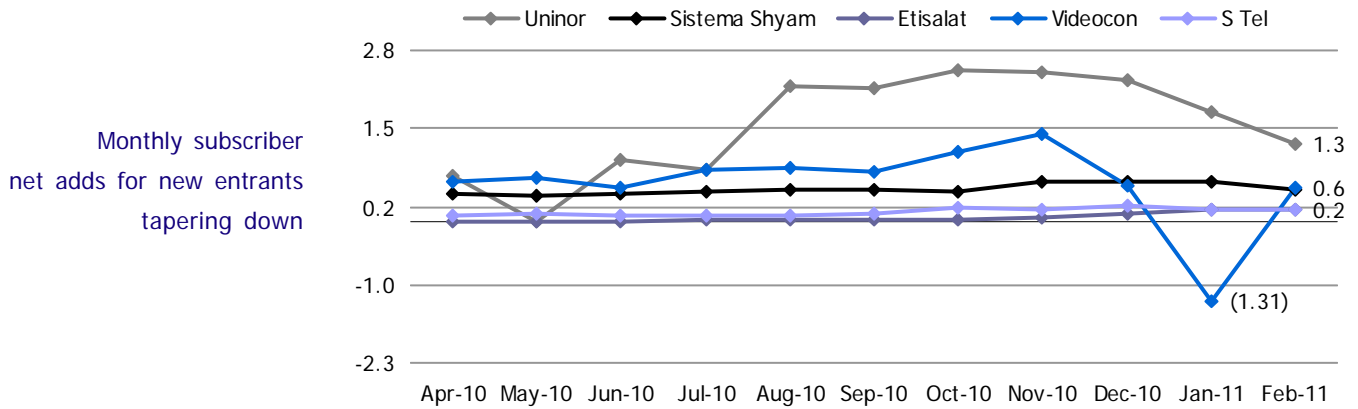
Wireless net adds (m) trend of leading operators (m)

Bharti, Vodafone and RCom record net adds in excess of 3m

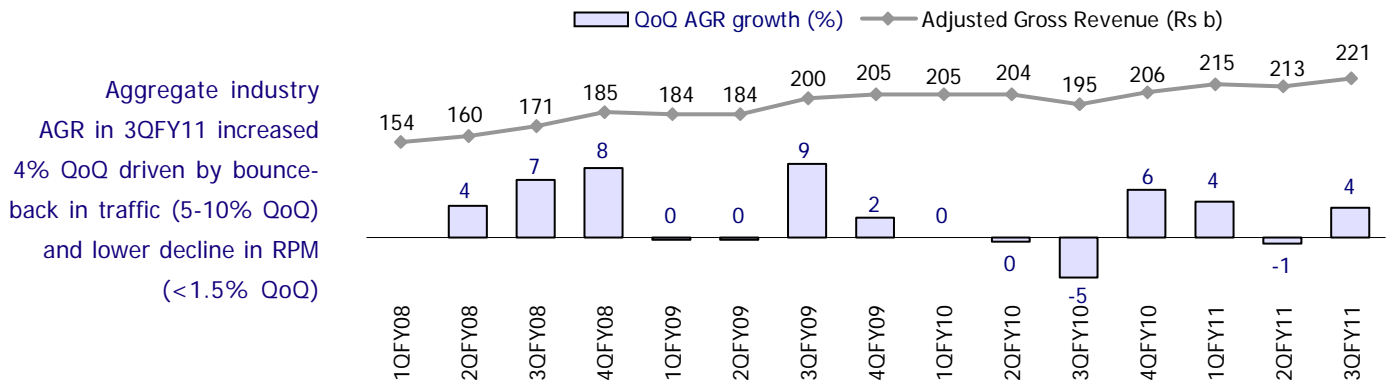


Source: TRAI

Wireless net adds (m) trend of new entrants



Aggregate adjusted gross revenue (AGR) of telecom operators (Rs b)



Source: TRAI

Adjusted gross revenue (Rs b)

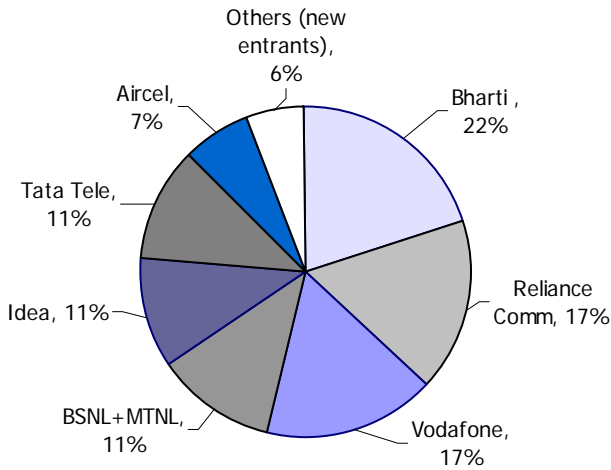
	1Q FY09	2Q FY09	3Q FY09	4Q FY09	1Q FY10	2Q FY10	3Q FY10	4Q FY10	1Q FY11	2Q FY11	3Q FY11	YoY %	QoQ %
Bharti (incl. wireline)	57.5	60.3	68.1	68.4	69.3	68.2	64.6	67.8	71.5	68.7	70.7	9	3
Vodafone	36.3	36.1	38.4	40.9	42.3	40.8	40.0	42.7	44.1	43.8	45.9	15	5
Idea/Spice	20.1	20.9	23.3	24.8	25.7	25.2	25.9	26.3	27.9	27.4	29.7	15	8
BSNL/MTNL	23.3	22.7	23.7	25.5	21.6	22.7	19.8	19.7	18.6	18.6	19.2	-3	3
RCOM (incl. wireline)	24.8	22.9	24.1	22.3	22.9	22.0	21.2	18.8	21.3	21.3	19.5	-8	-9
Tata Tele (incl. wireline)	14.5	13.8	14.5	14.5	14.2	15.5	14.5	18.5	18.1	18.7	20.0	38	7
Aircel	5.9	5.7	6.2	7.0	7.3	8.0	7.1	9.6	10.5	11.0	10.8	53	-1
Others	1.7	1.6	1.7	1.7	1.7	1.7	1.7	2.4	2.6	3.6	5.1	200	41
All India	184.1	184.0	200.1	205.0	205.0	204.1	194.7	205.9	214.7	213.2	220.8	13	4
QoQ (%)	0	0	9	2	0	0	-5	6	4	-1	4		

AGR share (%)

	1Q FY09	2Q FY09	3Q FY09	4Q FY09	1Q FY10	2Q FY10	3Q FY10	4Q FY10	1Q FY11	2Q FY11	3Q FY11	YoY (BP)	QoQ (BP)
Bharti (incl. wireline)	31.2	32.7	34.0	33.4	33.8	33.4	33.2	32.9	33.3	32.2	32.0	-119bps	-21bps
Vodafone	19.7	19.6	19.2	20.0	20.6	20.0	20.5	20.7	20.5	20.6	20.8	27bps	25bps
Idea/Spice	10.9	11.4	11.6	12.1	12.5	12.4	13.3	12.8	13.0	12.9	13.4	16bps	58bps
BSNL/MTNL	12.7	12.3	11.9	12.4	10.5	11.1	10.2	9.6	8.6	8.7	8.7	-152bps	-6bps
RCOM (incl. wireline)	13.5	12.4	12.1	10.9	11.2	10.8	10.9	9.1	9.9	10.0	8.8	-205bps	-119bps
Tata Tele (incl. wireline)	7.9	7.5	7.3	7.1	6.9	7.6	7.4	9.0	8.4	8.8	9.1	162bps	27bps
Aircel	3.2	3.1	3.1	3.4	3.6	3.9	3.6	4.7	4.9	5.1	4.9	127bps	-25bps
Others	0.9	0.9	0.9	0.8	0.8	0.8	0.9	1.2	1.2	1.7	2.3	143bps	61bps
All India	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0		

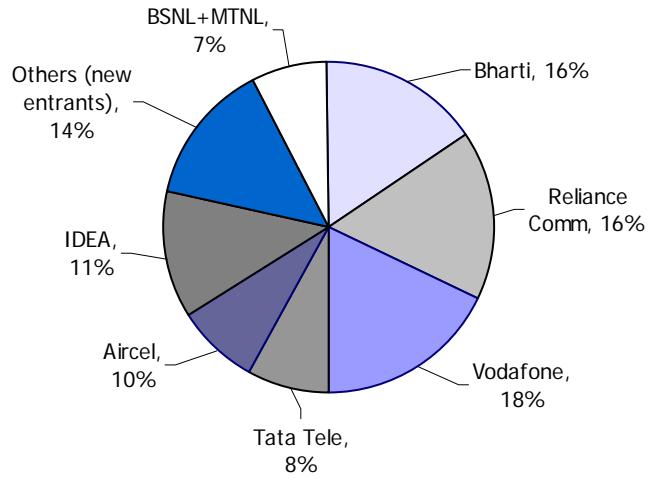
Source: TRAI

February 2011: Wireless subscriber market share



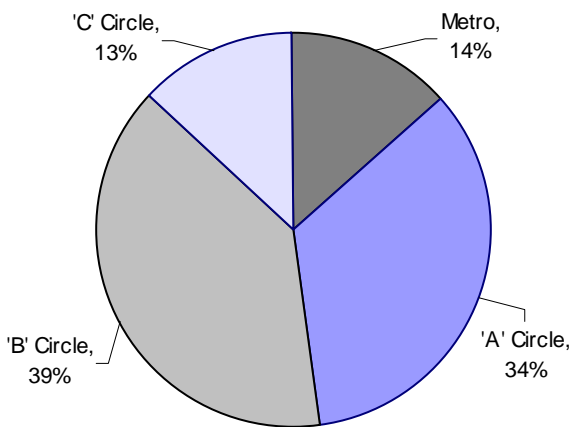
Bharti remains the market leader with ~22% wireless subscriber market share, followed by RCom/ Vodafone (~17%); new entrants together constitute only ~6% of the market

February 2011: Wireless net adds market share



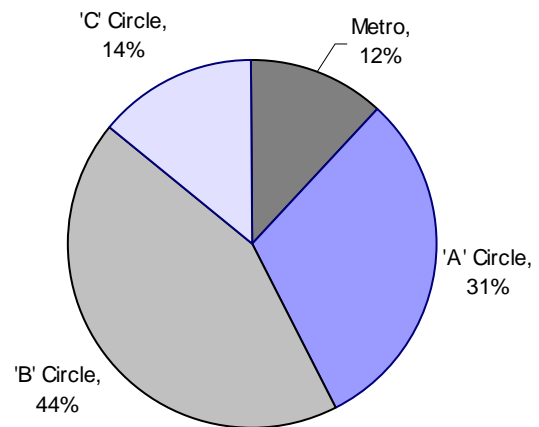
Bharti, RCom and Vodafone together constitute ~50% of the net adds market share

February 2011: Circle-wise subscriber mix



Metro and 'A' Circle categories together constitute ~48% of the wireless subscriber base

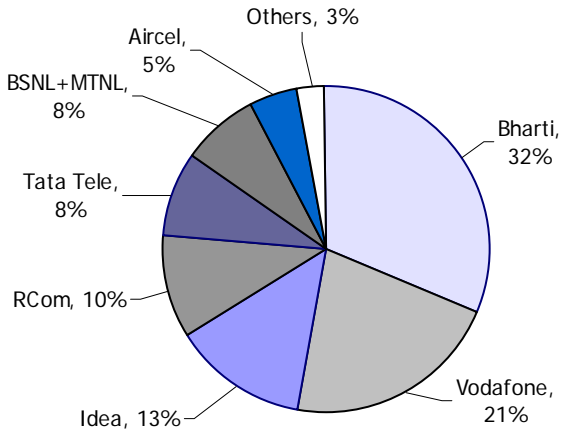
February 2011: Circle-wise net adds mix



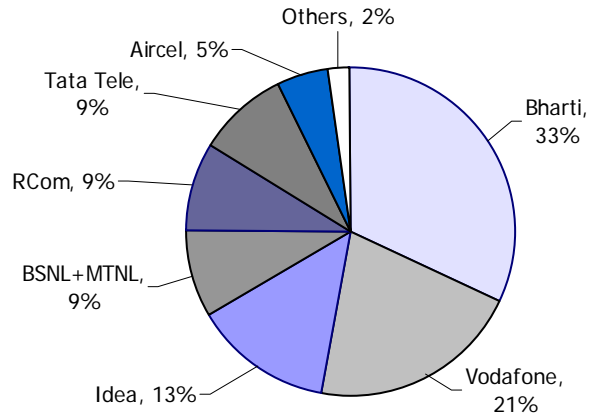
'B' Circle contributes the highest share (~44%) in wireless subscriber net adds

Quarterly trends

3QFY11: Gross revenue (GR) market share

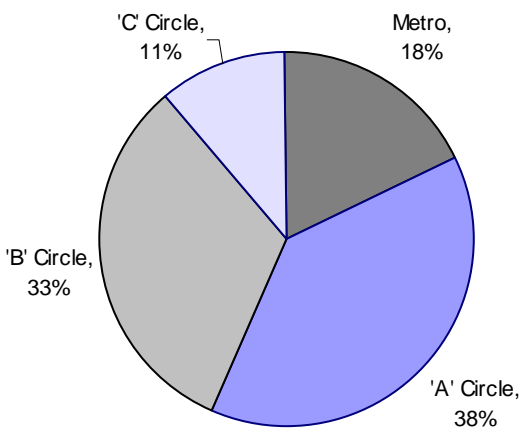


3QFY11: Adjusted gross revenue (AGR) market share

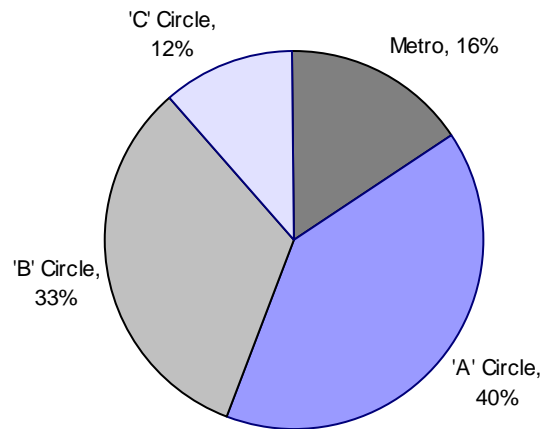


Bharti continues to be the market leader with ~33% revenue market share, followed by Vodafone (~21%); new entrants together have only ~2% of revenue market share

3QFY11: Circle-wise GR mix



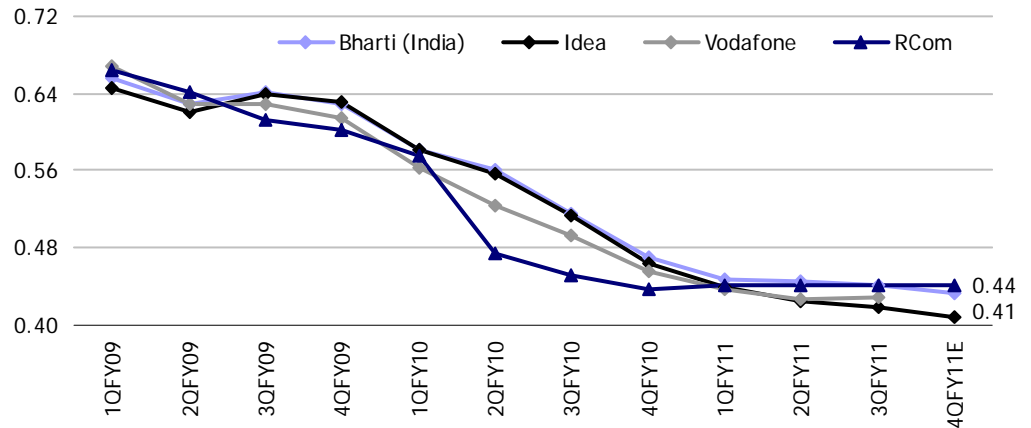
3QFY11: Circle-wise AGR mix



Metro and 'A' Circle categories together constitute ~56% of aggregate revenue

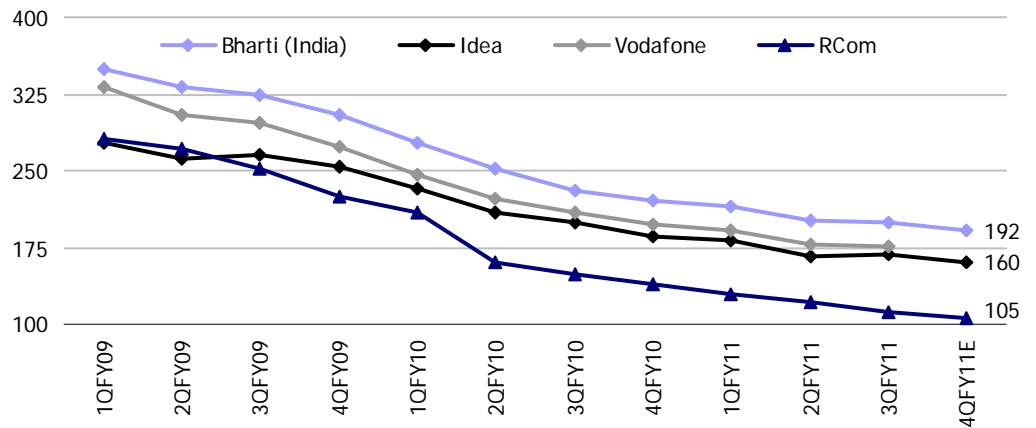
Revenue per minute (Rs/min)*

RPM pressure expected to be slightly more than that witnessed in 1HFY11



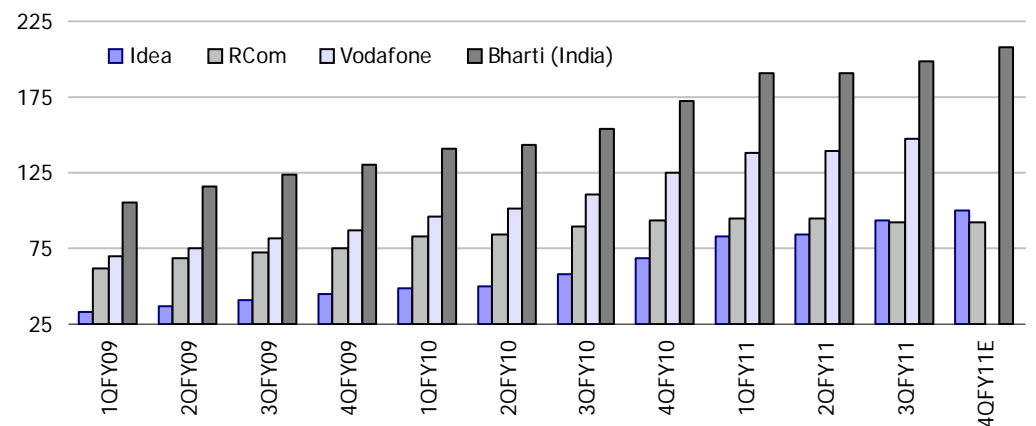
Average revenue per user (Rs/month)

We expect Bharti (India) to report highest ARPU of Rs192 in 4QFY11 (v/s Rs198 in 3QFY11) among key operators



Wireless traffic (billion mins) *

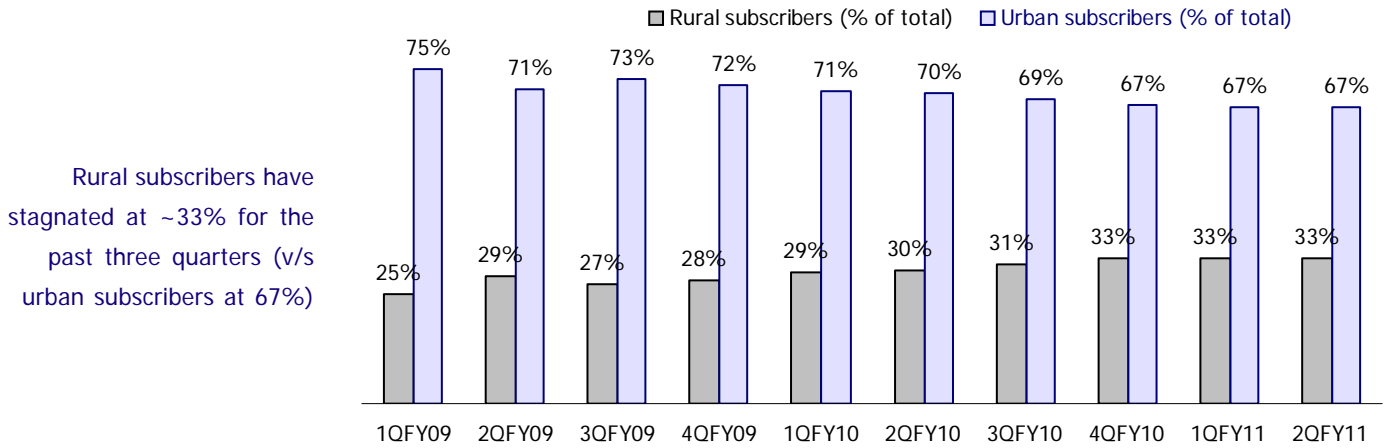
We expect another quarter of robust traffic growth for Bharti and Idea while RCom is likely to continue underperforming the industry



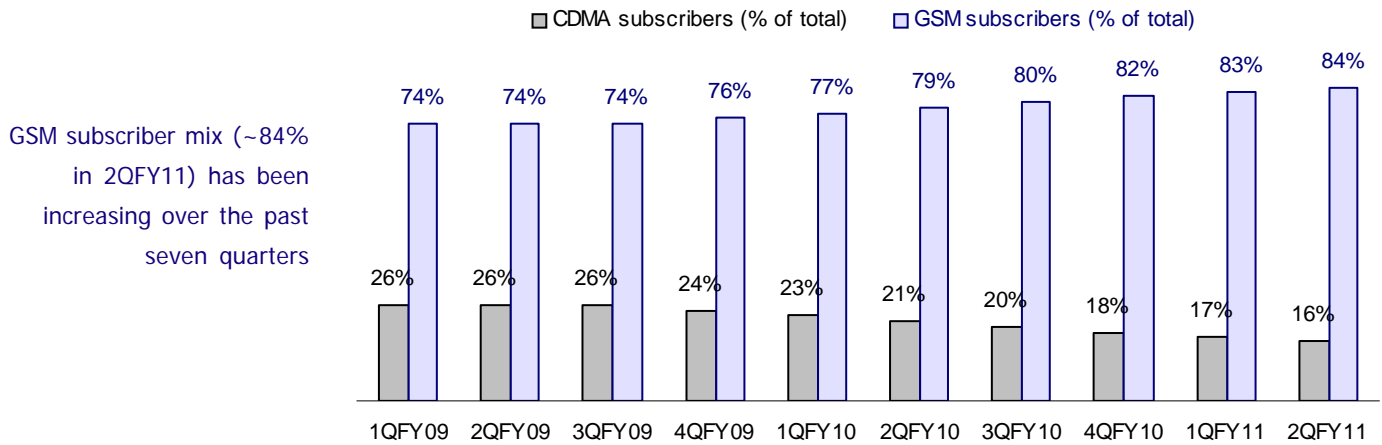
Source: Company/MOSL

* Vodafone RPM and traffic adjusted for on-net traffic to make it comparable with reporting of other operators. Vodafone counts on-net minutes once while other operators report it as 2 minutes.

Rural and urban subscriber mix



GSM and CDMA subscriber mix



Source: TRAI



Monthly Updates: March 2011

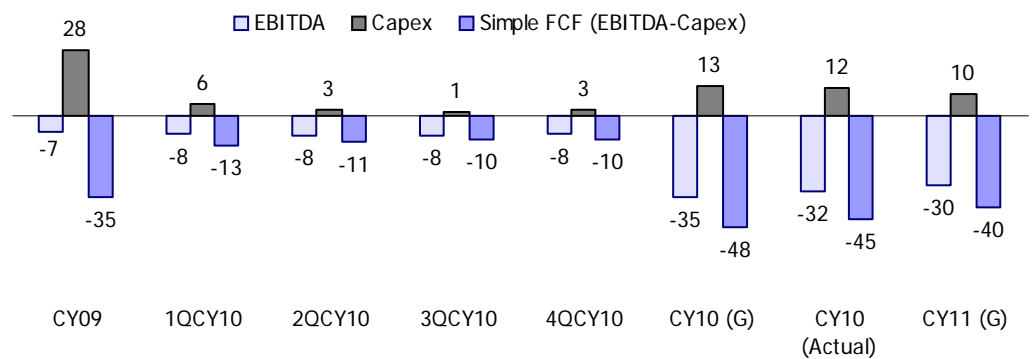
2G investigations leading to funding shortage for new entrants

- Recent media reports suggest new telecom entrants are facing difficulty in securing debt funds given ongoing 2G investigations.
- We believe new entrants face significant regulatory, operational and financial challenges, which could lead to potential consolidation of the industry structure as well as more spectrum availability for majors.
- Balance sheets of most industry players are constrained, which should prevent overbidding for potential 2G spectrum auction as well as further tariff wars.
- Maintain **Buy** on Bharti/Idea given superior operating performance and reasonable leverage levels.

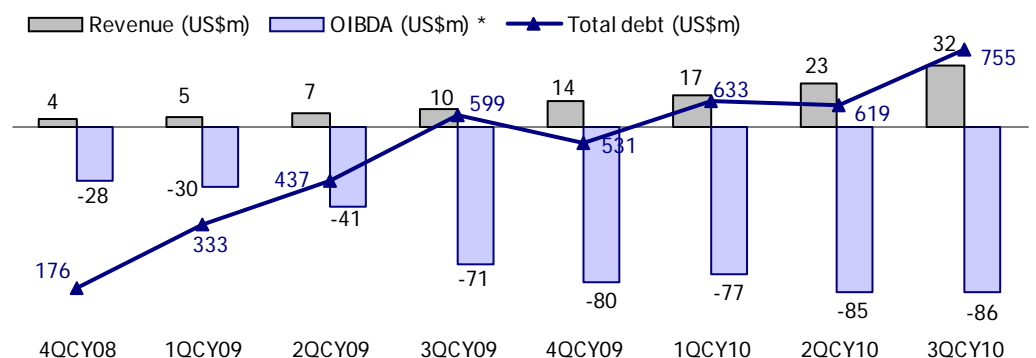
Bank funding getting tighter for new entrants

- Recent media reports suggest that new entrants like S Tel and Loop are facing difficulty in securing debt funding for their projects.
- As license is underlying security for debt, the Department of Telecom (DoT) has refused to be a party to loan agreements, citing ongoing 2G investigations.
- S Tel, which has licenses in six circles and operations in five circles, with a subscriber base of 2.7m, may fail to secure a Rs9.5b loan from an IDBI-led consortium of eight PSU banks.
- We highlight that the telecom regulator has already recommended cancellation of several licenses.

Uninor: Continued cash burn (Rs b)



Sistema Shyam: EBITDA loss at ~US\$90m/quarter

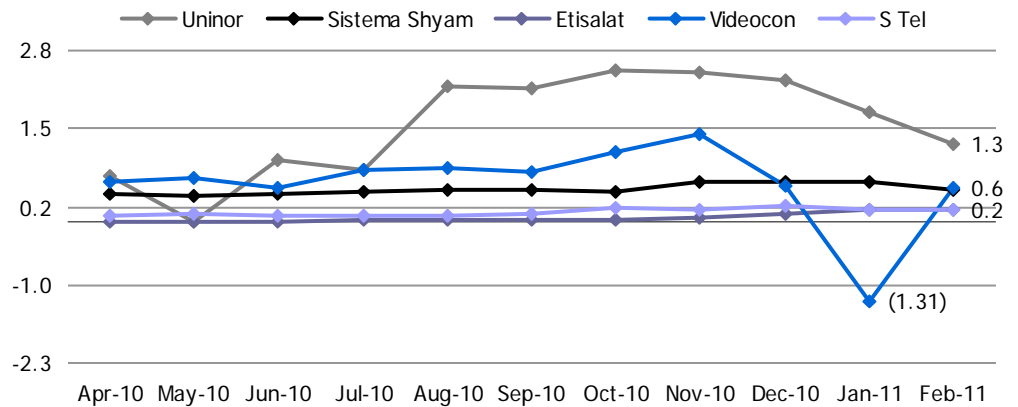


Source: Company/MOSL

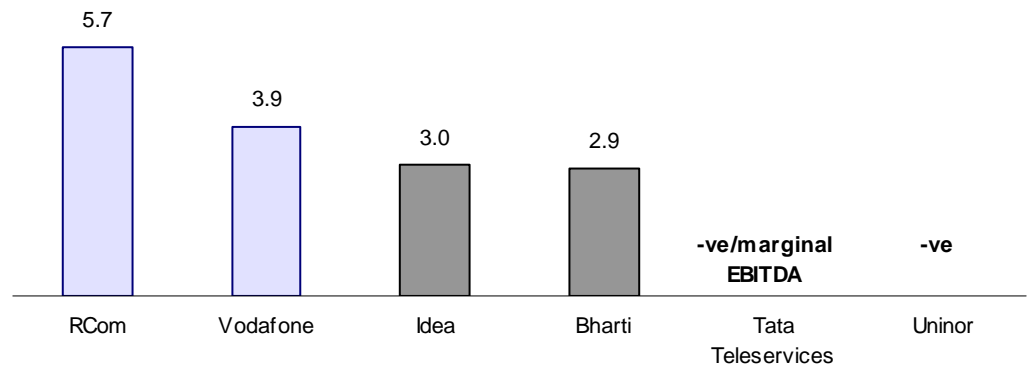
Operational challenges for new entrants visible in subscriber acquisitions

- New entrants like Uninor, Videocon and S Tel have witnessed a marked decline in subscriber additions over the past 2-3 months
- We believe this reflects likely lower aggression from these companies, given regulatory uncertainties.

Monthly subscriber net adds for new entrants tapering down (m)



Balance sheet stretched for most operators - Net Debt/EBITDA (x)



Source: Company/MOSL

Balance sheet constraints to limit pricing pressure

- While new entrants have limited market impact, we highlight that even the larger operators are facing balance sheet constraints, which should limit pricing pressure.
- New entrants continue to face operating and regulatory challenges and would find it difficult to fund their losses in absence of bank support.

Maintain Buy on Bharti/Idea

- We believe market mechanism could lead to price discovery of 2G spectrum lower than 3G/TRAI valuations, as potential 2G spectrum supply has increased.
- Ongoing policy revamp (regulatory reforms) could drive further consolidation, which is a positive for GSM incumbents.
- Expect revenue and EBITDA growth to rebound in FY12, driven by robust traffic growth, lower RPM decline and launch of 3G services.



MNP gaining some momentum, but still insignificant at 0.5% of subscriber base; unlikely to be game-changer

Recent TRAI data on MNP (launched 20th January 2011) status suggests increase in porting requests to 3.8m (0.5% of subscriber base) as of 28 February 2011 v/s 1.7m (0.2% of subscriber base) as of 15 February 2011. While the MNP-induced churn is insignificant as of now, full impact of MNP is likely to be visible only post two quarters of launch. We continue to believe that MNP is unlikely to be a game changer, given the largely pre-paid nature of the Indian market (>96% of subscriber base) and high churn levels (50-120% per year).

Key highlights

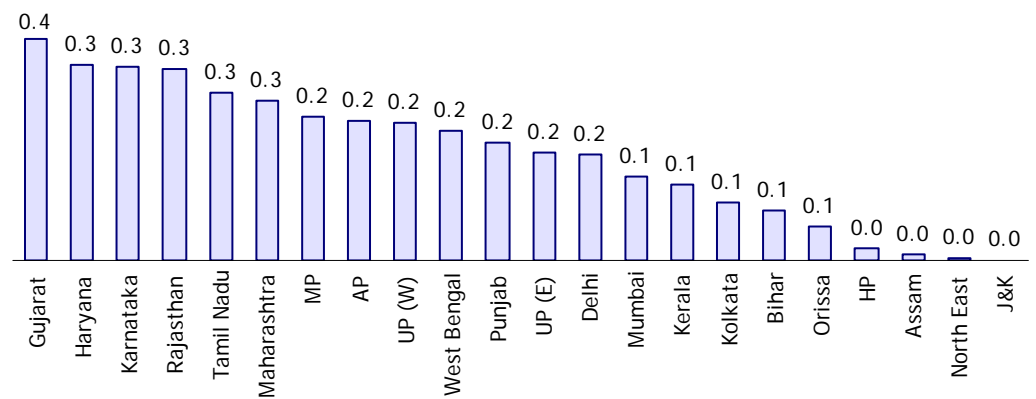
- Cumulative porting requests have more than doubled as of 28 February v/s 15 February.
- 3.8m subscribers (0.5% of wireless subscriber base) have requested for porting up to 28 February 2011.
- Assuming post-paid ARPU is 5x pre-paid, 0.5% subscriber churn can result in no more than 1.5% revenue churn even after assuming that half of the subscribers porting their numbers are post-paid.
- While there have been media reports citing subscriber complaints about inability to port their number, many requests are being rejected due to non-fulfillment of required conditions (completion of 90 days, existing contractual obligations and outstanding dues) or errors (incorrect unique porting code) made by subscribers while making an application to port their number.
- On a circle-wise basis, Haryana circle has seen cumulative porting of 1.7% in three months. Number portability was test-launched in Haryana effective 25 November 2010 while pan-India launch happened on 20 January 2011.
- Gujarat and Rajasthan recorded the highest number of porting requests (~0.4% of customer base) in the northern and western regions.
- Karnataka and Tamil Nadu circles recorded highest porting amongst southern and eastern regions, at ~0.3% of customer base.
- We believe that MNP-induced churn is insignificant given the already high churn levels in the Indian market.
- Major operators have been facing blended churn of 50-120% per year (4-10% per month) even without MNP, reflecting the price sensitivity of subscribers and prevalence of multi-SIM usage.
- International experience suggests that response to MNP is crucial over the first six months, after which the market churn levels largely normalize.
- 3G launch could potentially be a major factor for MNP uptake, as 1) operator focus is currently higher on 3G rollout/launches, and 2) high-end subscribers could be awaiting 3G rollouts before deciding to port.
- Hence, 3G launch combined with MNP can result in subscriber and revenue churn towards operators having 3G spectrum. In key metros, only three private and one public operator have 3G spectrum.

Status of MNP as of 28 February 2011

Circle	MNP effective from	Wireless subs Jan 2011 (m)	Porting requests as of 15 Feb (m subs)	Porting requests as of 15 Feb (%)	Porting requests as of 28 Feb (m subs)	Porting requests as of 28 Feb (%)
Haryana	25 November 2010	19	0.2	1.2	0.3	1.7
Gujarat	20 January 2011	44	0.2	0.4	0.4	0.8
Rajasthan	20 January 2011	41	0.1	0.3	0.3	0.8
Karnataka	20 January 2011	47	0.1	0.2	0.3	0.7
T.N. (incl Chennai)	20 January 2011	67	0.1	0.2	0.3	0.4
Others	20 January 2011	553	0.9	0.2	2.2	0.4
Aggregate		771	1.7	0.2	3.8	0.5

Source: TRAI

State-wise break-up of porting requests received upto 28 February 2011 (m)



Source: TRAI



Essar group exiting from Vodafone Essar; equity valuation at 14x FY11 EV/EBITDA

Essar group to exit Vodafone

- Vodafone Group has announced that Essar (33% partner in Vodafone Essar) would be exiting from the JV Vodafone Essar.
- Vodafone and Essar groups have exercised their respective call/put options.
- The deal will be settled before November 2011.
- Vodafone would likely need to look for an Indian partner, as foreign companies are not allowed to hold more than 74% stake.

Vodafone Essar equity valuation at US\$15b or ~14x FY11 EV/EBITDA

- Total cash outflow for Vodafone would be US\$5b implying equity valuation of US\$15b for Vodafone Essar.
- We understand that the valuation was pre-determined at the time of Hutch-Vodafone deal.
- We estimate Vodafone Essar's FY11 EBITDA at ~Rs70b and net debt at ~Rs300b, implying deal EV/EBITDA of ~14x FY11 for Vodafone Essar v/s current valuation of 9-10x for Bharti and Idea.

Indian wireless: Major deals

Month	Company	Stake Acquired By	Stake Sold By	Stake (%)	Consid- eration (US\$M)	EV (US \$m)	Circles+ licen ces	Subs (m)*	EV/ Sub (US\$)	EV/ EBITDA (x)	EV/ Sales (x)
Jul-05	Idea	Tata, Birla Group	AT&T	33	300	1,687	8+3	5.7	294	~9	~3
Sep-05	BPL	Hutchison-Essar	Rajeev Chandrasekhar, Other investors	100	1,154	1,154	4	2.7	420	~12	NA
Oct-05	Bharti	Vodafone	Warburg Pincus, Promoter co	10	1,500	15,750	23	14.1	1,117	~18	~7
Dec-05	Aircel	Maxis+Reddy Family	C. Sivasankaran (Sterling Info)	100	800	866	2+10	2.2	389	~18	~6
Mar-06	Spice	Telekom Malaysia	Deutsche Bank AG, Ashmore	49	179	580	2+6	1.9	300	~15	~4
Mar-06	Tata Teleservices	Tamasek	Equity infusion	9.9	330	4,513	20	8.0	564	NM	~8
Mar-06	Tata Teleservices	C Sivasankaran	Equity infusion	7	230	4,513	20	8.0	564	NM	~8
Apr-06	Idea	Aditya Birla Group	Tata Group	48	979	1,779	8+3	7.4	242	~7	~3
Feb-07	Hutch-Essar	Vodafone	Hutchison	67	11,700	18,800	15	24.4	770	~30	~10
Sep-07	Shyam Telecom	Sistema	Equity infusion	51	58	114	23	0.3	-	NM	NM
Jun-08	Spice	Idea	Modi Group	60	741	1,266	2	4.5	281	~30	~6
Jun-08	Idea	TMI	Equity infusion	15	1,500	11,801	23	26.1	452	~26	~9
Sep-08	SWAN Telecom	Etisalat	Equity infusion	45	900	1,100	13	-	-	NM	NM
Oct-08	Unitech Wireless	Telenor	Equity infusion	67	1,200	984	23	-	-	NM	NM
Nov-08	Tata Teleservices	NTT DOCOMO	Tata cos, Equity infusion	26	2,700	9,685	23	29.3	331	NM	~8
Jan-09	S-Tel	Batelco	Equity infusion	49	225	234	6	-	-	NM	NM

*As of deal announcement date

About Vodafone Essar

- Vodafone Essar is the second largest wireless company in India by revenue with ~21% market share.
- Vodafone Essar has 131m subscribers, implying a pan-India subscriber market share of 17% and presence in all 22 circles.
- The company is a 42% partner in Indus Towers - largest tower company globally with ~108,000 towers.
- We estimate FY11 revenue at ~US\$6b, EBITDA at ~US\$1.6b and net debt at ~US\$6.5b for Vodafone Essar.



MTN Nigeria: CY10 revenue up 16%, EBITDA up 24%; EBITDA margin at 63%; ARPU/MOU down 8-9%.

- MTN Group's CY10 results indicate strong growth in overlapping operations (with Bharti Africa) with local currency revenue up 16% and EBITDA up 24% in Nigeria (~30% of revenue for Bharti as well as MTN), supported by 25% growth in subscribers and stable RPM.
- While MTN has guided 50% decline in net adds run rate in Nigeria to decline by 50% YoY (~4m in CY11 v/s ~8m in CY10), capex is expected to increase to US\$1.1b (up 66%). MTN Nigeria reported 370bp increase in EBITDA margin to 63% v/s an estimated 20-25% for Bharti.
- At a group level, MTN turned net cash positive (US\$120m as of December 2010 v/s net debt of US\$700m as of June 2010) and has guided for 10% increase in group capex to US\$3b (v/s US\$800m/year for Bharti Africa).
- While Bharti has room to improve margins in Nigeria, given significant differential v/s MTN, MTN's strong balance sheet, high market share (>50%), and high capex commitment translate into a tough competitive landscape.
- Bharti management expects Africa margins to grow at healthy clip and achieve target of US\$5b revenue, US\$2b EBITDA and 100m subscribers in Africa by FY13.

Key result highlights for CY10

- MTN's subscriber base increased 22% to 141.6m; MTN has guided for 12% growth in subscriber base in CY11.
- Group's revenue grew 16% to US\$15.6b and EBITDA grew 24% to US\$6.9b.
- The company undertook several cost containment activities on opex, staff cost and marketing which helped EBITDA margin grow from 41.1% in CY09 to 44% in CY10.
- Revenue in Nigeria and Ghana was largely flat (up 1%) in reported currency (ZAR) but US\$ revenue grew a robust 14% and local currency revenue grew ~15%.
- MTN's EBITDA in Nigeria and Ghana was up 6% in reported currency but US\$ revenue grew 20%. Local currency EBITDA in Nigeria and Ghana grew 13-24%.
- The sharp appreciation of ZAR v/s USD (~12% appreciation v/s USD) negatively impacted the growth in reported currency.
- Key focus areas include upgradation and optimisation of networks to meet increased demand in data services.
- MTN is considering the partnership model for development of value added services offerings.
- The company is looking forward to evaluation of individual markets for infrastructure sharing opportunities of both passive infrastructure and fibre.
- MTN has a capex guidance of ~US\$3b for CY11 (v/s ~US\$2.7b in CY10).

MTN v/s Bharti Africa: Contribution from common footprint in CY10

	Subscribers contribution		Revenue contribution		EBITDA contribution	
	MTN	Bharti Africa	MTN	Bharti Africa	MTN	Bharti Africa
Nigeria	27%	32%	29%	33%	42%	25%
Ghana	6%	3%	5%	2%	5%	-5%
Zambia	1%	7%	NA	9%	NA	15%
Uganda	5%	5%	NA	2%	NA	1%
Congo Brazzaville	1%	4%	NA	6%	NA	7%
Total	41%	51%		53%		44%

Source: Company/MOSL

MTN Nigeria: Sustained leadership; EBITDA margins improve

- Subscriber base increased 25% to 38.7m; MTN has guided 11% increase in subscribers for CY11.
- Revenue and EBITDA grew 16-24% in local currency.
- MTN Nigeria margins increased from 59.3% in CY09 (v/s 30% for Bharti Nigeria in CY09) to 63% in CY10.
- ARPU declined from US\$12 in Dec-09 to US\$11 in Dec-10; ARPU in local currency declined 10% YoY.
- 25% decrease in local currency interconnect revenue (cut in interconnect charges) was partly off set by higher on-net traffic.
- Outgoing MOU declined from 53 minutes in Dec-09 to 48minutes in Dec-10.
- MTN has guided for a 66% increase in capex for Nigeria for CY11.
- SIM registration was implemented on 1 May 2010.
- Data constituted only 5% of aggregate revenue; increased Blackberry users have resulted in data revenue growth of 25% YoY; SMS accounted for 65% of data revenue.
- MTN increased market share driven by quality of service and segmental value propositions ending the year with a subscriber market share of 52%.
- Mobile penetration in the Nigeria market increased from 42% in CY09 to 49% in CY10.

Subscribers and ARPU: Bharti v/s MTN in Nigeria

	12ME Dec'09	12ME Dec'10	YoY (%)
Subscribers (m)			
-Bharti	14.8	NA	
-MTN	30.8	38.7	25%
ARPU (US\$)			
-Bharti	6.8	NA	
-MTN	12.0	11.0	-8%
Market share (%)			
-Bharti	24	NA	
-MTN	50	52	193bps
Market position			
-Bharti	2	NA	
-MTN	1	1	

Source: Company/MOSL

Operational Performance: Bharti v/s MTN in Nigeria

	12ME Dec'09	12ME Dec'10	YoY (%)
Revenue (US\$m)			
-Bharti	1,307	NA	
-MTN	4,006	4,564	14
EBITDA (US\$m)			
-Bharti	392	NA	
-MTN	2,373	2,875	21
EBITDA margin (%)			
-Bharti	30	NA	
-MTN	59	63	373bp

Source: Company/MOSL



Feb-11 GSM net adds up 7% MoM at 14.7m; Bharti, Idea flat; BSNL, Uninor decline sharply MoM

- GSM subscriber net adds (ex RCom and Tata Docomo) is 14.7m in Feb-11 v/s 13.7m in Jan-11, up 7% MoM despite 10% lower days in February (28 days v/s 31 days) due to absence of negative net adds (1.3m) recorded by Videocon in Jan-11. Excluding Videocon, net adds declined 6% MoM.
- Last two months have been particularly challenging for BSNL, Uninor, and Videocon in terms of net adds while Bharti, Vodafone, Idea and Aircel have been reporting robust additions.
- We will continue to watch out for sustained weakness in net adds of new entrants like Uninor and Videocon who are facing significant financial losses and regulatory uncertainty.
- Total GSM subscriber base as reported by COAI (ex RCom in 14 circles and Tata Docomo) is up 3% MoM and 40% YoY to 555m.
- Bharti's net adds declined 3% MoM but increased 10% YoY to 3.2m. Bharti's subscriber base is up 28% YoY and 2% MoM to 159m.
- Vodafone Essar recorded net adds of 3.56m, up 14% MoM and 15% YoY. Vodafone's subscriber base is up 35% YoY and 3% MoM to 131m.
- Idea's net adds remained flat MoM but increased 11% YoY to 2.5m; Idea's subscriber base reached 87m, up 40% YoY and 3% MoM.
- BSNL's net adds were down 32% MoM and 3% YoY. This is the second consecutive month of ~30% MoM decline in net adds for BSNL. BSNL's subscriber base is up 39% YoY and 2% MoM to 85m.
- Aircel's net adds remained flat MoM but declined 9% YoY to 1.67m; Aircel's subscriber base is up 53% YoY and 3% MoM to 54m.
- Uninor recorded net adds of 1.27m in Feb-11 (v/s 1.8m in Jan-11), taking its subscriber base to 22m; Uninor had averaged 2.3m net adds per month during Aug - Dec-10.
- Videocon reported net adds of 0.55m taking its subscriber base to 6.6m. S-Tel net adds declined 11% MoM and 16% YoY to 0.18m. Etisalat's operations seem to be coming out of the test launch phase, with 0.2m subscribers added in Feb-11 taking total sub base to 0.7m.
- New entrants like Videocon, Etisalat, and Loop have not launched commercially in several circles but have started reporting small subscriber base across circles possibly to meet roll-out obligations.

- Our 4QFY11 subscriber estimates have upside, as we have incorporated monthly net adds run-rate of 2.7m (avg of 3.25m in Jan-Feb 2011) for Bharti and 1.8m (avg of 2.51m in Jan-Feb 2011) for Idea.

Incremental market share (GSM excl RCom and Tata Docomo) (%)

	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11
Bharti	16.4	20.4	18.1	18.2	24.1	21.8
Vodafone Essar	14.3	16.9	18.2	18.1	22.7	24.2
Idea	11.9	12.3	16.3	17.3	18.3	17.1
BSNL	18.8	16.9	17.6	18.7	16.1	10.3
Aircel	13.0	6.8	7.1	8.4	12.1	11.4
Uninor	17.5	16.9	14.3	13.5	13.1	8.7
MTNL	0.3	0.2	0.2	0.1	0.3	0.2
Loop	0.1	0.2	0.1	0.1	0.1	0.1
Videocon	6.6	7.7	6.6	3.4	-9.5	3.8
S Tel	1.0	1.5	1.2	1.4	1.5	1.2
Etisalat DB Telecom	0.1	0.1	0.4	0.8	1.4	1.4
Total of above	100.0	100.0	100.0	100.0	100.0	100.0

Source: COAI

GSM market share (excl RCom and Tata Docomo) (%)

	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11
Bharti	30.0	29.7	29.3	29.0	28.8	28.6
Vodafone Essar	24.2	24.0	23.8	23.6	23.6	23.6
Idea	15.5	15.4	15.5	15.5	15.6	15.6
BSNL	15.2	15.3	15.3	15.5	15.5	15.3
Aircel	9.7	9.7	9.6	9.5	9.6	9.6
Uninor	2.4	2.8	3.2	3.5	3.8	3.9
MTNL	1.1	1.0	1.0	1.0	1.0	0.9
Loop	0.6	0.6	0.6	0.6	0.6	0.6
Videocon	0.9	1.1	1.3	1.4	1.1	1.2
S Tel	0.3	0.4	0.4	0.4	0.5	0.5
Etisalat DB Telecom	0.0	0.0	0.0	0.1	0.1	0.1
Total of above	100.0	100.0	100.0	100.0	100.0	100.0

Source: COAI



Key sector developments

Telecom Ministry to take final decision on 2G pricing within 3 months

The Telecom Ministry will take a final decision on 2G spectrum pricing and on those holding airwaves beyond contracted limit of 6.2 Mhz, based on recommendations of TRAI, within next three months before seeking Telecom Commission's approval.

Source: Economic Times

DoT to PAC: Termination notices for 85 new licences issued

The Telecom Ministry has informed the Public Accounts Committee (PAC) that it has issued show-cause notices to 13 companies for termination of the 85 new licences issued in 2008, who are stated to be "ineligible" for getting them.

Source: Telecom Tiger

Govt appoints special court to try 2G scam

Government has appointed a special court, designating Om Prakash Saini as a special judge, to try cases relating to 2G-spectrum scam following directions of the Supreme Court.

Source: Economic Times

Govt collects Rs 309 cr in penalties from new operators

The government has collected Rs 309 crore, as against total claim of Rs 370.55 crore, in penalties from new telecom service providers that failed to roll-out their networks within the stipulated timeframe after getting licences and spectrum.

Source: Economic Times

DoT, I&B ministry spar over spectrum

Ministry of I&B claimed that the spectrum in 700 Mhz is reserved for public broadcaster Doordarshan (DD), while the ministry of communication and IT has denied such claims saying the spectrum was required for expansion of mobile (IMT) and broadband wireless services (BWA).

Source: Economic Times

MoD, DoT differ over 3G spectrum vacation; matter goes to EGoM

After sharp differences between ministries of defence and telecom over vacation of 3G spectrum by the former, the matter has been sent to an empowered group of ministers headed by Finance Minister.

Source: Economic Times

DoT special audit of 5 telcos over; may raise Rs 1,100 cr demand

Having completed investigation into special audit of five leading operators, including RCom, Bharti and Idea, the Telecom Ministry is likely to raise demand of over Rs 1,100 crore from them for under reporting revenues.

Source: Economic Times

Govt slaps Rs 700 cr fine on telcos for violation of laws

The government has imposed fines worth Rs 700 crore on various telecom operators for carrying out illegal and clandestine activities in their services, particularly for non-compliance of the subscriber verification process.

Source: *Economic Times*

DoT wants cut in telecom levies

A telecom department internal note, calls for rationalisation of levies to be among the top priorities for the communications ministry. According to DoT officials, the first step towards lower levies will be a reduction in the licence fee, which could be implemented from January 2012.

Source: *Economic Times*

Mobile phone towers to be powered by solar energy: Minister

The Government is considering use of solar energy to tide over power deficiency impeding installation of mobile phone towers in tribal and hilly areas.

Source: *Economic Times*

SIM cards new national security risk, warns MHA

The new national security risk emerging out of the import of SIM cards, carrying embedded software for mobile phones, has alarmed the home ministry (MHA) and it intends to ask the telecom industry to replace all such imported SIMs in the country with locally manufactured ones at their own cost.

Source: *Economic Times*

DoT forms eight teams to study different telecom policy issues

In run-up to formulate the new telecom policy, DoT has formed eight teams to discuss wide-ranging issues related to spectrum, merger and acquisition, indigenous manufacturing and security.

Source: *Economic Times*

Telcos reach consensus only on four of 15 policy changes

Mobile phone companies have found consensus on only four of the 15 policy changes that have been proposed by telecom minister Kapil Sibal as part of his 100-day plan to bring in much needed reforms for the sector. Operators are sharply divided on most of the remaining 11 proposed policy changes.

Source: *Economic Times*

National Telecom Policy 2011 to promote domestic Telecom manufacturing

Telecom secretary mentioned that National Telecom Policy 2011 will have mechanism to gauge efficient use of spectrum and steps to promote indigenous manufacturing of telecom equipment.

Source: *Telecom Tiger*

Sibal seeks financial assistance for telcos

Batting for telcos facing hurdles in raising loans in the wake of 2G scam, Telecom Minister met the Prime Minister and the Finance Minister and sought their intervention to ensure that operators get finances to complete their projects.

Source: Telecom Tiger

Airtel, Vodafone, Idea approach SC in 2G scam case

Leading GSM telecom operators Airtel, Vodafone and Idea along with their association COAI approached the Supreme Court with a plea challenging allocating GSM spectrum to CDMA operators under the dual technology regime ignoring several applicants who had applied before them for the licence.

Source: Economic Times

GSM operators to surrender excess spectrum during renewal in 2014

According to a telecom department internal note, all leading GSM operators will have to give up 'excess' airwaves they have when their mobile permits come up for renewal beginning 2014.

Source: Economic Times

Separate landline number for telemarketers hits roadblock

TRAI's demand for a separate identifiable landline number series, in line with a mobile series for telemarketers, has hit a roadblock with DoT saying that it could breach security at telecom exchange level.

Source: Economic Times

BSNL wants Rs 2,000cr subsidy for rural telephony to continue

Cash-strapped BSNL has asked the telecom department not to end the 2,000 crore subsidy it receives annually to sustain its loss-making landline business across rural India. The department had provisioned this amount annually for three years beginning 2008 from the Universal Service Obligation Fund (USOF).

Source: Economic Times

BlackBerry still stuck in security tangle

BlackBerry maker Research in Motion (RIM) had provided encryption keys for its messenger and internet services to Indian security agencies but the communication ministry is of the view that RIM has not given other technical details to make this solution effective.

Source: Economic Times

US-based chipmaker Qualcomm to sell BWA stake to LTE promoters

US-based chipmaker Qualcomm has reiterated that it will sell its yet-to-be-launched Indian broadband wireless access business to any company that promotes long-term evolution (LTE) technology in India.

Source: Economic Times

Vodafone still believes no tax to pay

Vodafone has said it continues to believe that it had no tax liability over its 2007 purchase of Hutchison Whampoa Ltd's mobile business in India.

Source: Economic Times



Sector outlook & valuation

- 4QFY11 to be a stable quarter with 2-4% QoQ revenue growth for Bharti/Idea/RCom driven by robust traffic growth (~5-7% QoQ for Bharti/Idea).
- We expect a modest step-up in RPM pressure in 4Q (RPM decline of 2-3% QoQ) v/s 1-2% decline for GSM incumbents in the last two quarters.
- Industry subscriber net adds have returned to normalized levels of 19m-20m in January-February 2011.
- Most of the major operators have launched 3G in select cities; rollout across major cities in 3G footprint is likely to be completed in 1QFY12.
- MNP is unlikely to be a game changer, given the largely pre-paid nature of the Indian market and high churn levels.
- Ongoing policy revamp (regulatory reforms) could drive consolidation, which is a positive for GSM incumbents.
- Revenue and EBITDA growth is likely to rebound in FY12, driven by robust traffic growth, lower RPM decline and launch of 3G services
- At an EV of 5.5-6.2x FY13E proportionate EBITDA, sector valuations remain attractive.

Comparative valuations

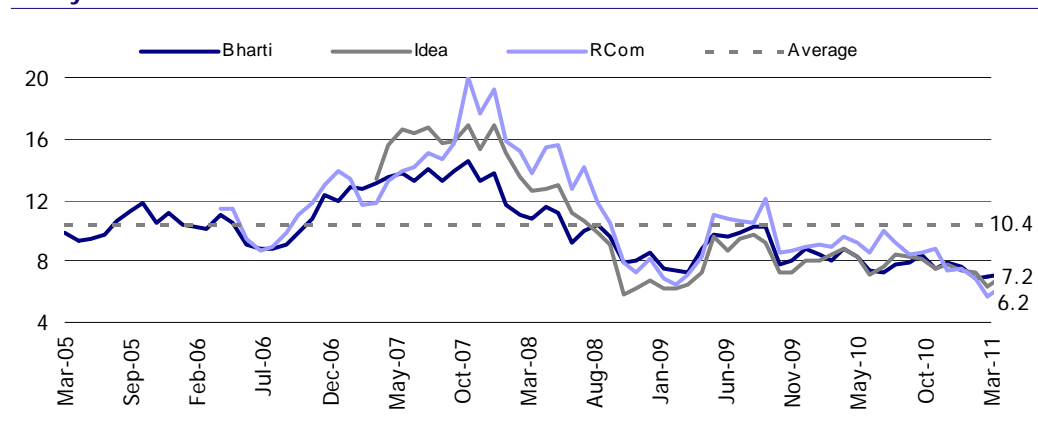
	CMP (Rs)	Rating	Mcap (US\$b)	EV (US\$b)	P/E (x)			EV/EBITDA (x)			EV/Sales (x)		
					FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E
Bharti *	360	Buy	30.6	43.7	21.9	16.8	12.9	10.1	7.6	6.2	3.4	2.8	2.3
Idea	70	Buy	5.2	7.7	26.5	30.6	15.8	9.3	7.3	5.5	2.2	1.9	1.5
RCom	112	Neutral	5.2	12.6	14.7	16.1	14.0	8.5	6.9	5.8	2.8	2.3	2.0

* Proportionate EV/EBITDA

	RoIC (%)			RoE (%)			EBITDA Margin (%)			Net Debt/EBITDA (x)			Net Debt/Equity (x)		
	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E
Bharti	10.3	9.8	12.0	13.0	14.8	16.7	33.6	36.5	37.4	2.9	2.0	1.3	1.1	0.9	0.6
Idea	6.1	6.6	9.3	7.4	6.1	10.8	24.1	25.8	27.9	3.0	2.4	1.5	0.9	0.9	0.6
RCom	4.4	3.9	4.0	4.0	3.6	4.0	32.7	34.1	34.7	5.0	3.9	3.2	0.8	0.8	0.7

	Capex/Sales (%)			Sales Growth (%)			EBITDA Growth (%)			EPS (Rs)			EPS Growth (%)		
	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E
Bharti	50.1	16.2	12.3	41.9	20.4	11.7	19.0	30.8	14.5	16.5	21.4	27.9	-30.4	30.0	30.4
Idea	57.7	21.9	13.0	23.5	19.2	14.3	8.6	27.6	23.7	2.6	2.3	4.4	-14.3	-13.4	93.6
RCom	65.9	14.4	10.9	-8.7	13.2	8.3	-15.8	18.2	10.2	7.6	7.0	8.0	-67.8	-8.5	15.1

One-year forward EV/EBITDA



Global valuations

	Market Cap (US\$B)	Revenue gr. (%)		EBITDA gr. (%)		EV/EBITDA	
		CY10	CY11	CY10	CY11	CY10	CY11
China Mobile	190	13	6	11	3	4.1	4.0
AT&T	182	1	1	2	3	5.8	5.6
Vodafone Group	149	3	14	-3	9	9.3	8.5
Telefonica	117	8	10	18	-5	5.6	5.9
America Movil	117	54	15	65	9	6.8	6.2
Verizon	109	-2	4	-2	4	5.9	5.7
NTT DOCOMO	75	0	14	0	17	4.4	3.7
France Telecom	60	-10	4	-8	3	5.4	5.2
China Unicom	41	12	14	2	9	5.5	5.0
MTN Group	39	8	12	10	12	6.3	5.6
Zain	21	-39	1	-35	3	8.8	8.6
Mobile telesystems	18	36	11	30	11	4.7	4.2
Partner Comm	3	10	4	16	-1	5.0	5.0
Average		7	9	8	6	6.0	5.6

Source: Bloomberg



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