

UBS Investment Research

India Mobile Sector

Strong GSM net adds in June'08

■ India GSM operators add 6.32m subs in June 2008

India GSM operators added 6.32m subs in June 2008, up from 6.28m subs in May 2008 (excluding RCOM GSM). We expect CDMA subscriber data to be released over the next few days.

■ Top players maintain run-rate; strong month for MTNL, BSNL

Bharti added 2.56m subs in Jun2008 vs. 2.45m in May2008, Idea added 1.05m vs. 1.10m, while Vodafone Essar added 1.73m vs. 1.69m. MTNL posted strong month with 0.87m net adds vs. 0.67m, while BSNL added 0.36m vs. 0.31m.

■ We believe Indian mobile market to continue to ride on scalability

We believe the growth in Indian mobile sector will continue to accelerate driven by growing subscriber base and subscriber usage. Tariff cuts by leading mobile operators have improved the affordability of mobile services. We believe that investors are over-estimating risks from the entry of new players and lower spectrum availability. We believe the entry of two-three new players will increase competitive intensity marginally as the market is already ultracompetitive.

■ Remain positive on Indian mobile operators

We recommend emerging market growth investors to accumulate Idea and Bharti at current levels. We have Buy ratings for Bharti, Idea and RCOM. Our Bharti PT of Rs1,350 and RCOM PT of Rs1,050 are SoTP based. Our Idea Cellular PT of Rs175 is DCF based (WACC of 11.2% & terminal EV/EBITDA of 8x).

10 July 2008

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Table 1: India monthly mobile subscribers

| Subscribers (m) | Jun-07 | Jul-07 | Aug-07 | Sep-07 | Oct-07 | Nov-07 | Dec-07 | Jan-08 | Feb-08 | Mar-08 | Apr-08 | May-08 | Jun-08 |
|--------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| GSM | 135.80 | 141.84 | 148.09 | 153.99 | 160.01 | 166.16 | 172.22 | 178.75 | 185.02 | 192.70 | 199.18 | 205.81 | 212.14 |
| Bharti | 42.70 | 44.76 | 46.81 | 48.88 | 50.91 | 52.96 | 55.16 | 57.42 | 59.67 | 61.98 | 64.37 | 66.83 | 69.38 |
| BSNL | 28.42 | 28.98 | 29.70 | 30.30 | 31.03 | 31.95 | 32.71 | 33.75 | 34.57 | 36.21 | 36.68 | 37.00 | 37.36 |
| Vodafone Essar | 30.75 | 32.44 | 34.12 | 35.66 | 37.19 | 38.56 | 39.86 | 41.15 | 42.56 | 44.13 | 45.78 | 47.47 | 49.20 |
| Idea Cellular | 16.13 | 17.00 | 17.87 | 18.67 | 19.42 | 20.22 | 21.05 | 21.95 | 22.87 | 24.00 | 25.04 | 26.14 | 27.19 |
| Aircel | 6.78 | 7.16 | 7.62 | 8.04 | 8.52 | 9.03 | 9.43 | 9.93 | 10.19 | 10.61 | 10.99 | 11.49 | 11.92 |
| Reliance GSM | 4.15 | 4.44 | 4.73 | 5.04 | 5.34 | 5.67 | 6.00 | 6.34 | 6.68 | 7.02 | 7.36 | 7.71 | 7.71 |
| Spice | 3.17 | 3.29 | 3.40 | 3.48 | 3.57 | 3.66 | 3.80 | 3.94 | 4.08 | 4.21 | 4.36 | 4.50 | 4.55 |
| MTNL | 2.61 | 2.67 | 2.73 | 2.77 | 2.83 | 2.89 | 2.95 | 3.01 | 3.12 | 3.24 | 3.28 | 3.35 | 3.44 |
| BPL Mobile | 1.09 | 1.09 | 1.10 | 1.15 | 1.20 | 1.22 | 1.24 | 1.26 | 1.28 | 1.29 | 1.31 | 1.33 | 1.38 |
| CDMA (incl. FWP) | 45.30 | 47.25 | 49.24 | 51.05 | 53.00 | 55.08 | 57.06 | 59.14 | 61.30 | 63.51 | 65.25 | 67.25 | n/a |
| Reliance Infocomm | 27.73 | 28.91 | 30.09 | 31.29 | 32.49 | 33.73 | 34.96 | 36.23 | 37.50 | 38.78 | 40.06 | 41.34 | n/a |
| Tata Tele-services | 17.33 | 18.09 | 18.90 | 19.50 | 20.21 | 21.04 | 21.74 | 22.54 | 23.40 | 24.33 | 24.78 | 25.48 | n/a |
| Others | 0.25 | 0.25 | 0.25 | 0.26 | 0.29 | 0.32 | 0.35 | 0.37 | 0.40 | 0.41 | 0.42 | 0.43 | n/a |
| Total subscribers | 181.10 | 189.08 | 197.33 | 205.04 | 213.01 | 221.24 | 229.28 | 237.89 | 246.32 | 256.21 | 264.44 | 273.06 | n/a |

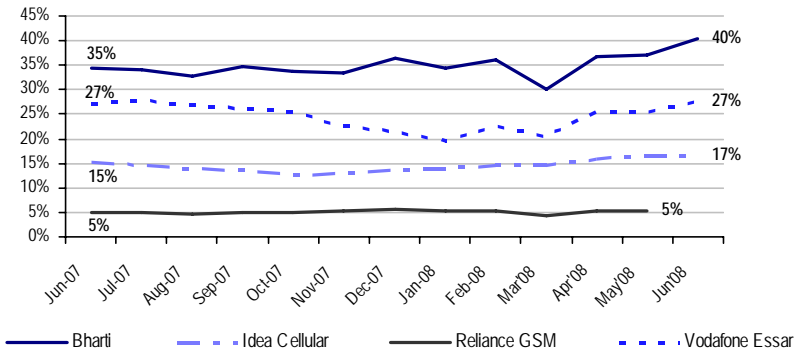
Source: COAI, AUSPI; Note: Reliance GSM Jun'08 subs not yet available. May'08 numbers as provided by RCOM

Table 2: India monthly mobile net adds

| Net adds (m) | Jun-07 | Jul-07 | Aug-07 | Sep-07 | Oct-07 | Nov-07 | Dec-07 | Jan-08 | Feb-08 | Mar-08 | Apr'08 | May'08 | Jun'08 |
|------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| GSM adds | 5.67 | 6.04 | 6.25 | 5.90 | 6.02 | 6.14 | 6.06 | 6.53 | 6.27 | 7.68 | 6.49 | 6.63 | 6.32 |
| Bharti | 1.96 | 2.06 | 2.05 | 2.06 | 2.03 | 2.05 | 2.20 | 2.25 | 2.25 | 2.31 | 2.39 | 2.46 | 2.56 |
| BSNL | 0.43 | 0.56 | 0.73 | 0.60 | 0.73 | 0.91 | 0.77 | 1.04 | 0.82 | 1.64 | 0.47 | 0.31 | 0.37 |
| Vodafone Essar | 1.54 | 1.69 | 1.68 | 1.54 | 1.53 | 1.38 | 1.30 | 1.28 | 1.41 | 1.57 | 1.65 | 1.69 | 1.73 |
| Idea Cellular | 0.86 | 0.88 | 0.87 | 0.80 | 0.75 | 0.80 | 0.83 | 0.90 | 0.92 | 1.13 | 1.04 | 1.10 | 1.05 |
| Aircel | 0.37 | 0.39 | 0.46 | 0.42 | 0.48 | 0.50 | 0.40 | 0.51 | 0.25 | 0.43 | 0.38 | 0.50 | 0.43 |
| Reliance GSM | 0.29 | 0.29 | 0.30 | 0.30 | 0.31 | 0.33 | 0.33 | 0.34 | 0.34 | 0.34 | 0.34 | 0.35 | - |
| Spice | 0.16 | 0.12 | 0.11 | 0.08 | 0.09 | 0.09 | 0.14 | 0.14 | 0.14 | 0.13 | 0.15 | 0.13 | 0.05 |
| MTNL | 0.06 | 0.06 | 0.06 | 0.04 | 0.05 | 0.06 | 0.07 | 0.06 | 0.11 | 0.12 | 0.04 | 0.07 | 0.09 |
| BPL Mobile | 0.01 | 0.01 | 0.01 | 0.05 | 0.05 | 0.02 | 0.02 | 0.02 | 0.02 | 0.02 | 0.02 | 0.02 | 0.05 |
| CDMA adds (incl. FWP) | 1.92 | 1.94 | 2.00 | 1.81 | 1.95 | 2.09 | 1.97 | 2.08 | 2.16 | 2.21 | 1.74 | 1.99 | n/a |
| Reliance Infocomm | 1.16 | 1.18 | 1.18 | 1.20 | 1.21 | 1.23 | 1.23 | 1.27 | 1.27 | 1.27 | 1.28 | 1.28 | n/a |
| Tata Tele-services | 0.75 | 0.76 | 0.81 | 0.60 | 0.71 | 0.83 | 0.71 | 0.80 | 0.86 | 0.93 | 0.44 | 0.70 | n/a |
| Others | 0.00 | 0.00 | 0.00 | 0.01 | 0.03 | 0.03 | 0.03 | 0.02 | 0.02 | 0.01 | 0.02 | 0.01 | n/a |
| Total net adds | 7.59 | 7.98 | 8.24 | 7.71 | 7.97 | 8.23 | 8.04 | 8.62 | 8.43 | 9.89 | 8.23 | 8.62 | n/a |

Source: COAI, AUSPI; Note: Reliance GSM Jun'08 subs not yet available. May'08 numbers as provided by RCOM

Chart 1: India GSM operators' incremental market share



Source: COAI, RCOM. Note: RCOM GSM Jun'08 subs not yet available

■ **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.

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UBS Investment Research: Global Equity Rating Allocations

| UBS 12-Month Rating | Rating Category | Coverage ¹ | IB Services ² |
|-----------------------|-----------------|-----------------------|--------------------------|
| Buy | Buy | 57% | 38% |
| Neutral | Hold/Neutral | 36% | 35% |
| Sell | Sell | 8% | 29% |
| UBS Short-Term Rating | Rating Category | Coverage ³ | IB Services ⁴ |
| Buy | Buy | less than 1% | 31% |
| Sell | Sell | less than 1% | 38% |

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 2008.

UBS Investment Research: Global Equity Rating Definitions

| UBS 12-Month Rating | Definition |
|-----------------------|---|
| 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. |

KEY DEFINITIONS

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

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

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Company Disclosures

| Company Name | Reuters | 12-mo rating | Short-term rating | Price | Price date |
|--|---------|--------------|-------------------|----------|-------------|
| Bharti Airtel Ltd. ^{2a, 4, 6, 12} | BRTI.BO | Buy | N/A | Rs747.40 | 09 Jul 2008 |
| Idea Cellular ^{2b, 4} | IDEA.BO | Buy | N/A | Rs87.65 | 09 Jul 2008 |
| Reliance Communication Limited ¹ | RLCM.BO | Buy | N/A | Rs440.95 | 09 Jul 2008 |

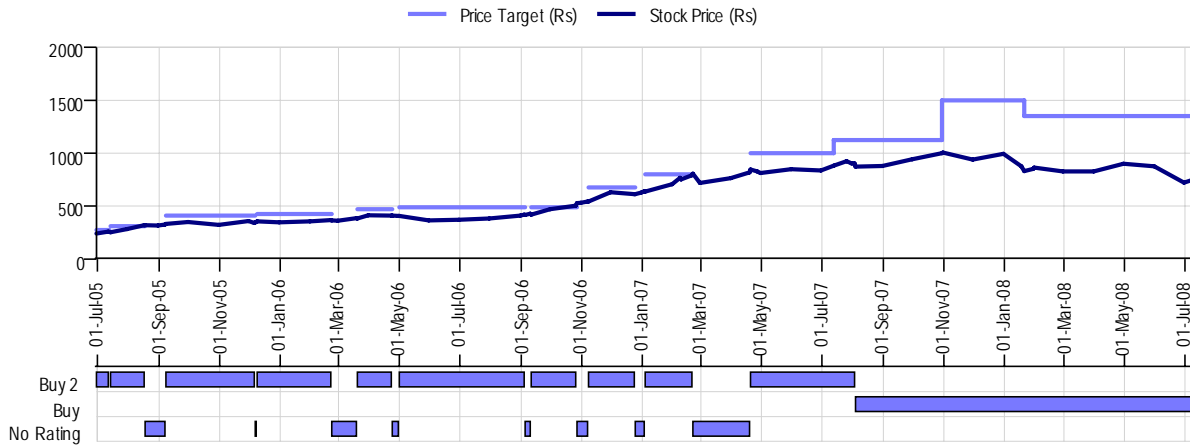
Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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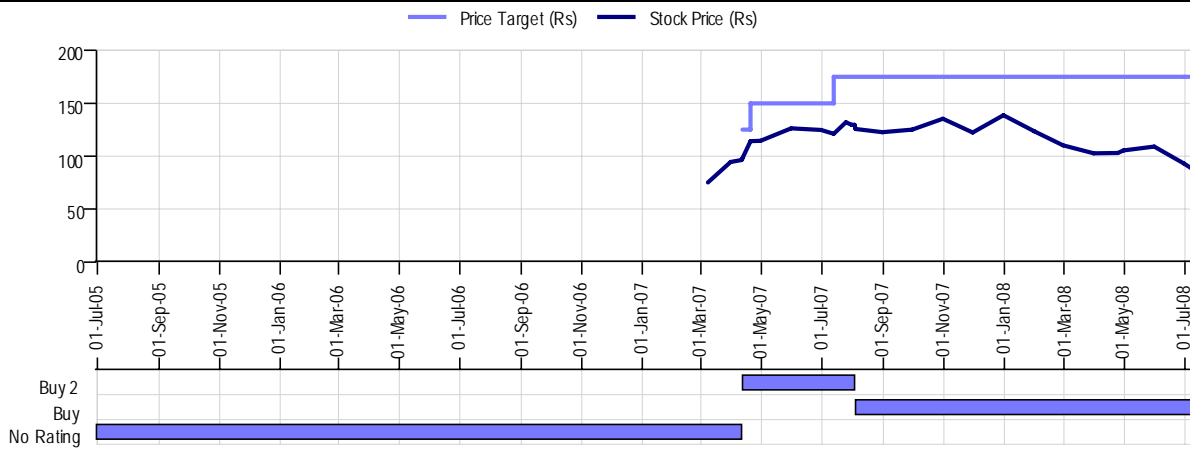
Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Bharti Airtel Ltd. (Rs)



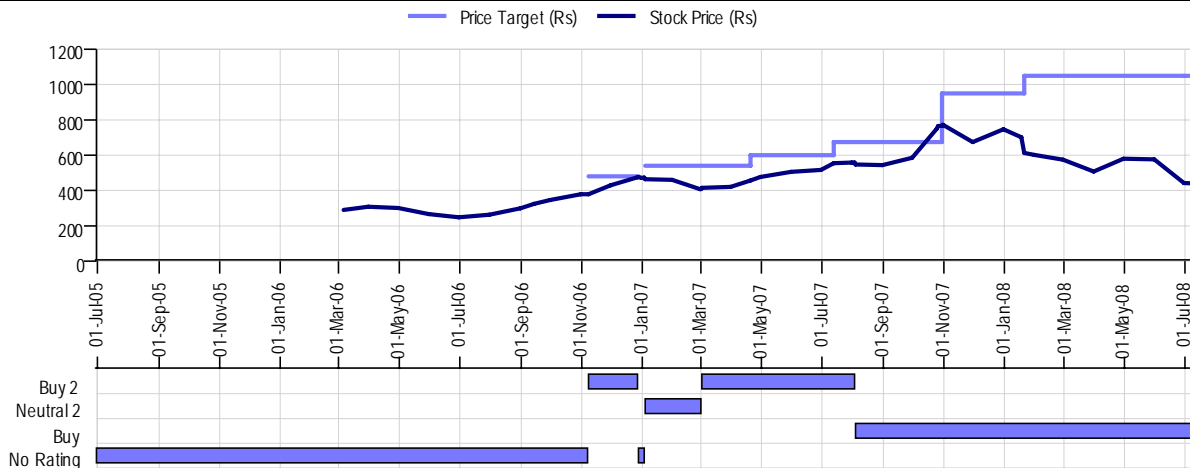
Source: UBS; as of 09 Jul 2008

Idea Cellular (Rs)



Source: UBS; as of 09 Jul 2008

Reliance Communication Limited (Rs)



Source: UBS; as of 09 Jul 2008

Note: On August 4, 2007 UBS revised its rating system. (See 'UBS Investment Research: Global Equity Rating Definitions' table for details). From September 9, 2006 through August 3, 2007 the UBS ratings and their definitions were: Buy 1 = FSR is > 6% above the MRA, higher degree of predictability; Buy 2 = FSR is > 6% above the MRA, lower degree of predictability; Neutral 1 = FSR is between -6% and 6% of the MRA, higher degree of predictability; Neutral 2 = FSR is between -6% and 6% of the MRA, lower degree of predictability; Reduce 1 = FSR is > 6% below the MRA, higher degree of predictability; Reduce 2 = FSR is > 6% below the MRA, lower degree of predictability. The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities. From October 13, 2003 through September 8, 2006 the percentage band criteria used in the rating system was 10%.

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