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Industry View  
In-Line

## India Telecommunications

### Simple Tariff Plan; Profitability Questionable

**Quick Comment: Impact on our views.** Reliance Communication is launching an all-India plan with an outgoing call charge of Rs0.5/min; irrespective of point of termination or origination, as long as it is within India with a one-time entry fee of approximately Rs50. Although this is clearly the simplest plan and in our view the cheapest one for the consumer, we think the only gainer from this plan is the consumer (see Exhibit 1).

**Industry Impact:** We believe that most operators will not react to totally match RCOM's new tariff plan. However, this tariff will be a hindrance for new operators to launch services, and possibly stagnate industry revenue growth for the next 12 months. With aggressive pricing and increased competition, we believe investors could start de-rating the Indian telecom sector.

We estimate the effective tariff for this plan at Rs0.36/min for voice; i.e., 29% lower than the F1Q10 industry Average Revenue per Minute (ARPM) of Rs0.52/min. Including data revenue we believe ARPM is Rs0.42/min vs the industry average of Rs0.58/min., much more aggressive than our estimate. The average cost per minute last quarter was ~Rs0.40 (see Exhibit 2), which implies wafer thin margins for RCOM unless it manages to reduce costs.

We had assumed industry ARPMS to fall to Rs0.50/min in F2011, a CAGR decline of 7% per annum from current levels. We now believe that with this latest RCOM tariff, ARPMS could decline by another 10%, and hence we are concerned in the short term on the industry outlook, due to expected reduction in earnings.

#### Profit Sensitivity to ARPMS

	F2011E
<b>10% lower ARPMS</b>	
RCOM (%)	-12.0
Bharti (%)	-10.0
Idea (%)	-31.1
<b>Current EPS</b>	
RCOM	25.31
Bharti	30.94
Idea	4.50
<b>EPS Assuming 10% lower ARPMS</b>	
RCOM	22.27
Bharti	27.85
Idea	3.10
<b>P/E Assuming 10% lower ARPMS</b>	
RCOM	13.5
Bharti	14.4
Idea	22.7
<b>Market P/E</b>	<b>16.45</b>

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**Sensitivity to ARPMs:** Idea, as a pure wireless operator, is the most sensitive to decline in ARPMs, while Bharti is the least sensitive. A 10% drop in ARPMs impacts our F2011 EPS negatively for Idea, RCOM and Bharti by 31%, 12%, and 10%, respectively.

This short-term pain could lead to faster consolidation of the industry which, in our view, is positive for the industry.

We are not downgrading Bharti for the following reasons:

- 1) Focus on ROCE:** Bharti, as of Jun-09, has a 29.6% revenue market share vs subscriber market share of 24%, which clearly reflects Bharti's focus on ROCE.

- 2) Relative underperformance and attractive valuations:** Bharti has underperformed the Sensex by 33% YTD and trades at a F2011E P/E of 13x. Even if we assume a 10% decline in ARPMs in Bharti's earnings, the stock would trade at a P/E of 14.4x, a 12% discount to the market P/E.

- 3) Bharti's premium over RCOM narrowed:** Bharti trades at a 10% premium to RCOM compared to an historical average premium of 20%, making valuation attractive.

Exhibit 1

## India Telecoms: RCOM New Plan

	Sistema Shyam (Rajasthan Plan)	Tata DoCoMo (GSM plan-Mumbai)	Idea (Mumbai Jun2009)	Bharti (Mumbai) June09	Vodafone (Mumbai) June09	Bharti - May09	Vodafone -May09	Aircel Delhi Intro Plan	Aircel Mumbai Intro Plan	RCOM 26th Feb Mumbai	RCOM 5th Oct All India	Bharti Earlier Scheme
SIM Card Charge (Rs.)	49	49	25	50		99		99	99	49	49	99
Entry into Lifetime scheme (Rs)	-		-	99	99	99	99	10	10		49	295
Months of amortization	18	18	18	18	18	18	18	18	18	18	18	18
Monthly ARPU contribution (Rs.)	-	-	-	6	6	6	6	1	1	-	2,722	16
Coupon value	99	100	100	99	99	100	100	100	100	107	107	100
Less: Service Charge	9	11	9	9	9	9	9	9	9	10	10	9
ARPU from Consumer	90	94	91	90	90	91	91	91	91	97	97	91
Plus: Termination revenue	26	31	30	25	25	18	18	34	35	39	39	18
ARPU including incoming termination revenue	115	124	121	121	121	114	114	126	127	136	139	125
Admin Charge (% of Card Denomination)	0.0	2.0	2.0	2.0	2.0	2.0	2.0	0.0	2.2	0.0	0.0	2.0
<b>Admin Charges</b>	<b>(0)</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>-</b>	<b>2</b>			<b>2</b>
Available Air Time	128	153	148	127	127	89	89	169	215	195	195	89
<b>Tariff (Rs/Local call)</b>	<b>0.70</b>	<b>0.60</b>	<b>0.60</b>	<b>0.69</b>	<b>0.69</b>	<b>1.00</b>	<b>1.00</b>	<b>0.54</b>	<b>0.43</b>	<b>0.50</b>	<b>0.50</b>	<b>1.00</b>
Tariff (Rs/STD call)	1.40	1.20	1.00	1.00	1.00	1.50	1.50	0.50	1.50	1.00	1.00	1.50
Termination Rs/minute	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
Free outgoing minutes Per month						-	-	-	2			
Outgoing minutes	128	153	148	127	127	89	89	169	215	195	195	89
Incoming minutes	128	153	148	127	127	89	89	169	175	195	195	89
Incoming/Outgoing Ratio	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	0.8	1.0	1.0	1.0
Total Minutes	256	306	296	253	253	178	178	337	389	389	389	178
<b>NR per minute (I+O) (Rs)</b>	<b>0.45</b>	<b>0.41</b>	<b>0.41</b>	<b>0.48</b>	<b>0.48</b>	<b>0.64</b>	<b>0.64</b>	<b>0.37</b>	<b>0.33</b>	<b>00.35</b>	<b>00.36</b>	<b>0.70</b>
NR per outgoing minute (Rs)	0.70	0.61	0.61	0.75	0.75	1.08	1.08	0.55	0.43	0.50	0.51	1.21
NR per minute (I+O) (Cents)	0.9	0.8	0.8	1.0	1.0	1.3	1.3	0.8	0.7	0.7	0.7	1.5
NR per outgoing minute (Cents)	1.5	1.3	1.3	1.6	1.6	2.3	2.3	1.1	0.9	1.0	1.1	2.5

Source: Company data, Morgan Stanley Research  
Note: NR – Net Retention

October 6, 2009

India Telecommunications

Exhibit 2

## India Telecoms: Margins Contracting

F1Q10 Actuals	Industry	RCOM	Bharti	Idea
ARPM (Rs)	0.58	<b>0.58</b>	0.58	0.58
Cost per min (Rs)	0.39	<b>0.35</b>	0.39	0.42
Spread per min (Rs)	0.19	<b>0.23</b>	0.19	0.16

Source: Company data, Morgan Stanley Research

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Industry : India Telecommunications



Volatility shading indicates "more volatile" (V) flag. As of Nov-14-2008 the V flag has been discontinued.

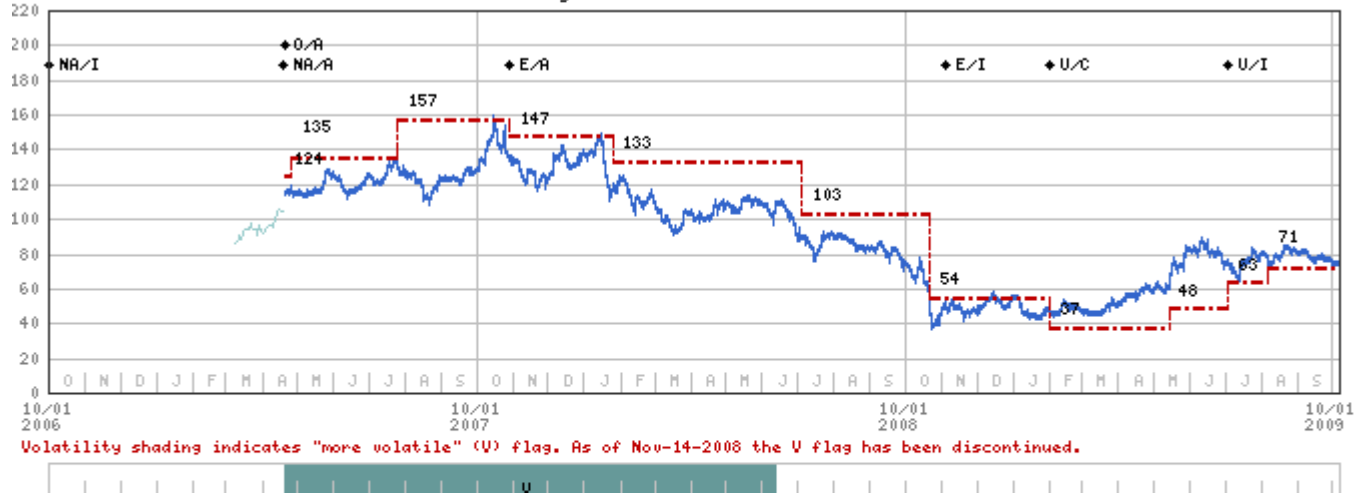
Stock Rating History: 10/1/06 : O/I; 4/19/07 : O/A; 11/5/08 : O/I; 2/2/09 : O/C; 7/3/09 : O/I

Price Target History: 5/1/06 : 241; 10/19/06 : 279; 10/30/06 : 293.5; 1/10/07 : 376; 4/19/07 : 493.5; 4/30/07 : 501.5; 7/2/07 : 528; 7/27/07 : 567; 9/25/07 : 591; 11/1/07 : 637.5; 7/4/08 : 496.5; 11/5/08 : 475; 2/2/09 : 379; 5/14/09 : 448; 7/3/09 : 500; 8/6/09 : 516

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October 6, 2009  
India Telecommunications

Idea Cellular Ltd. (IDEA.BO) - As of 10/5/09 in INR  
Industry : India Telecommunications

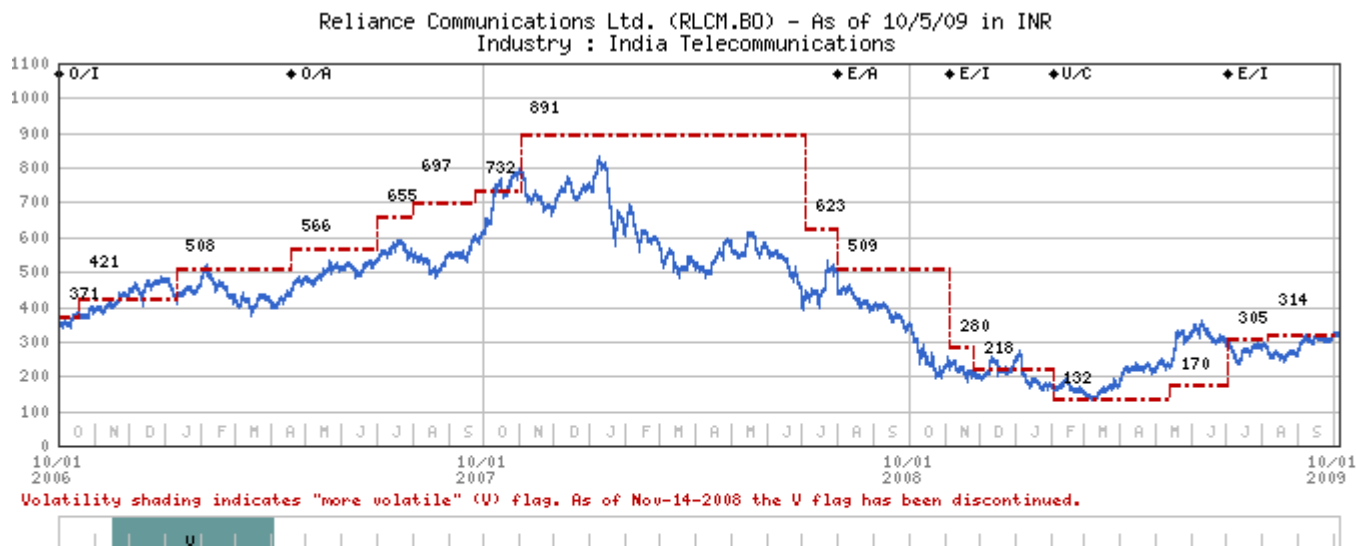


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Price Target History: 4/20/07 : 124; 4/26/07 : 135; 7/26/07 : 157; 10/29/07 : 147; 1/25/08 : 133; 7/4/08 : 103; 10/22/08 : 54; 2/2/09 : 37; 5/14/09 : 48; 7/3/09 : 63; 8/6/09 : 71

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October 6, 2009  
India Telecommunications



Stock Rating History: 10/1/06 : O/I; 4/19/07 : O/A; 8/1/08 : E/A; 11/5/08 : E/I; 2/2/09 : U/C; 7/3/09 : E/I  
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 9/25/07 : 732; 11/2/07 : 891; 7/4/08 : 623; 8/1/08 : 509; 11/5/08 : 280; 11/26/08 : 218; 2/2/09 : 132;  
 5/14/09 : 170; 7/3/09 : 305; 8/6/09 : 314

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October 6, 2009  
India Telecommunications

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**Industry Coverage: India Telecommunications**

Company (Ticker)	Rating (as of)	Price (10/05/2009)
<b>Vinay Jaising</b>		
Bharti Airtel Limited (BRTI.BO)	O (04/11/2002)	Rs400.3
Idea Cellular Ltd. (IDEA.BO)	U (02/02/2009)	Rs73.8
Mahanagar Telephone Nigam (MTNL.BO)	E (01/20/2009)	Rs87.35
Reliance Communications Ltd. (RLCM.BO)	E (07/03/2009)	Rs300.2
Tata Communications Ltd (TATA.BO)	U (10/22/2002)	Rs471.75

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