INDIA RESEARCH
INITIATING COVERAGE
TELECOMMUNICATIONS

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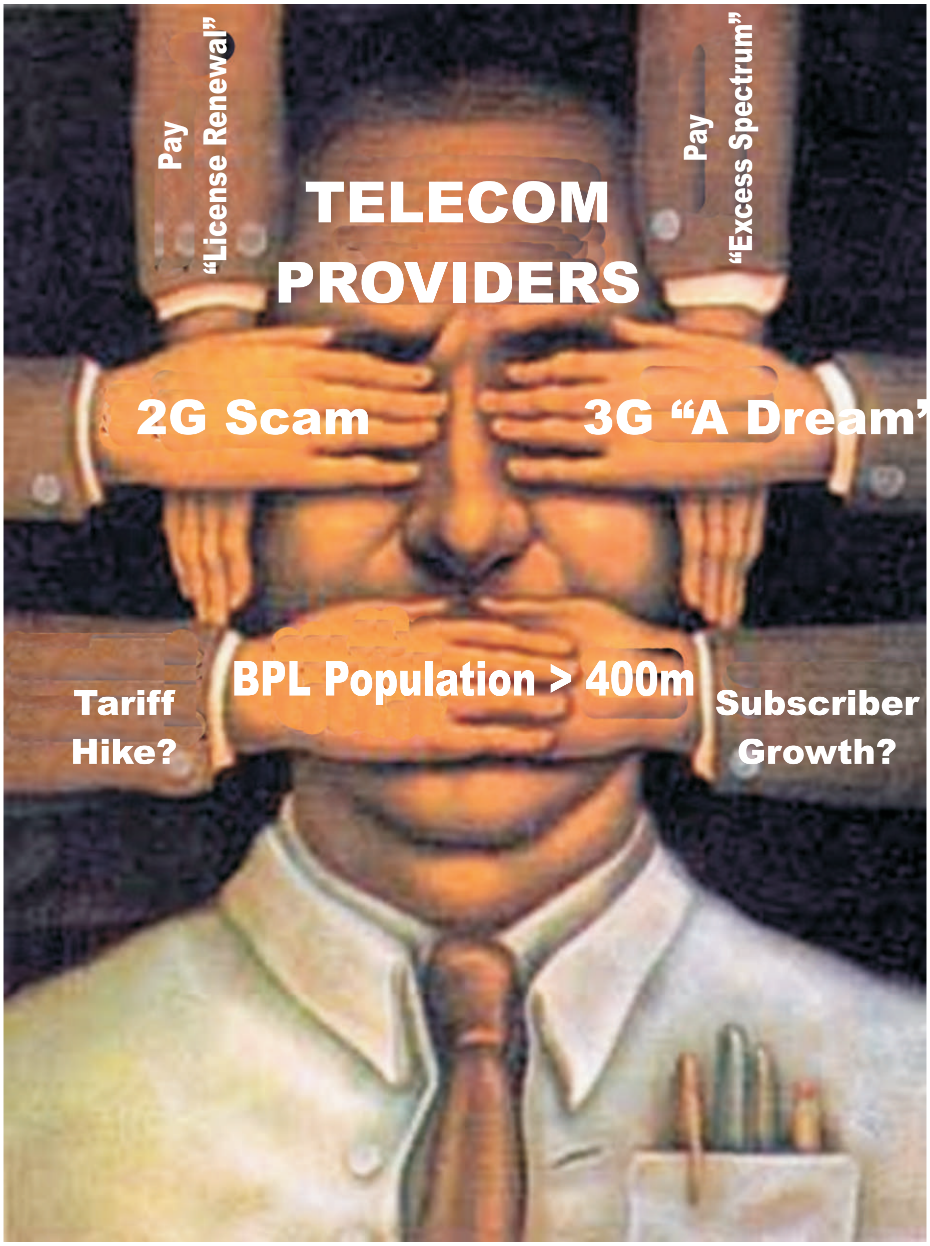
ANTIQUE

Indian Telecom Sector

At best a "hope"



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RE-INITIATING COVERAGE

Telecom sector

At best a hope

Key highlights

Telecommunication .. transformation from a luxury to a necessity ... subscriber base grew ~300x in a decade

From 90s when Telephone (Fixed Wire-line) was a luxury, with low penetration levels helped by the uneven terrains Indian telecommunication industry has taken a big leap with wireless subscriber bases growing at a phenomenal pace from a mere 3m subscribers in Sep' 00 to around 870m as of Oct'11, implying a 60% CAGR.

Indian rural region ... low teledensity with high BPL population

Today India is one of the fastest growing telecom markets in the world with penetration level as high as 150% in urban areas. Future growth is expected to be driven by rural areas (which accomodates ~70% of the Indian population) where penetration levels (~33%) are still low, though we believe that incremental subscriber addition will come at low ARPUs and at a slower pace due to presence of a huge BPL (below poverty line) population.

Indian wireless market - highly competitive

Currently there are six major players in the telecom space fighting viciously to increase their market share in the low ARPU rural market. While Bharti Airtel, Vodafone and Idea Cellular are the leading players in the GSM arena, Reliance communications and Tata Teleservices have captured majority of CDMA services space in mobile telephony, although in last few years both of them have also shifted aggressively in the GSM space. Till now all the above players were busy in tariff war and were launching unique schemes to lure subscribers (TTSL per second plan, Reliance 0.50/minute and R2R unlimited calls plan), however to our surprise for the first time all the major players have come out with tariff revisions as recently as July 2011; although we still need to wait and watch the possible impact of the same in coming quarters.

Sector facing internal as well as external headwinds

We believe that Indian telecom sector has gone through a massive transformation during the last two decades and has gained a significant presence in the global arena. However, currently a number of challenges are faced by the sector including: **Industry challenges** - High penetration levels, high BPL population, limited 3G demand and fierce competition; **Sector challenges** - Resource constraints, new telecom policy, lower availability of 3G spectrum, excess spectrum charges, and abolition of 3G roaming charges; **Regulatory challenges** - Non-clarity on M&A, exit policies and 2G Spectrum overhang.

While we believe that the incumbents due to strong presence, higher penetration and operations beyond boundaries might be able to overcome the current challenges, the government in action and the 2G sword can be a pain for a long term.

Re-initiating coverage on Bharti and Idea with a HOLD rating

Although Bharti Airtel is our preferred pick in the Indian telecom services space based on its capability to turnaround Africa operations, we believe that incremental subscribers in Africa will have lower ARPUs comparatively. Moreover, presence of multiple operators competing for the wallet share of Indian households act as a bottleneck for any meaningful tariff hike and ARPU growth. Considering the above factors, we value Bharti at INR379 or at a P/E multiple 17x on our FY13e EPS, implying a 10% upside from current levels. We initiate coverage on Bharti with a HOLD recommendation.

Although Idea has added 12.3m subscribers in the last seven months, we believe the same will slow down due to high penetration levels. We also strongly believe that although there will be a nominal increase in ARPU due to growth in 3G services but the overall macro factor of low per capita income will put a cap on the usage/monthly spend by a subscriber/household, and will take away the benefits of recent tariff hikes resulting in lower MOU going forward. Considering the above factors, we value Idea at a P/E multiple 24x on our FY13e EPS of INR3.2, implying a target price of INR74, or 10% downside from current levels. We recommend a HOLD on Idea.

The big leap ... A glimpse of Indian wireless story!!

Telecommunication .. transformation from a luxury to a necessity ... subscriber base grew ~300x in a decade

Indian wireless subscriber base has grown from ~3m to ~870m from 2000 to 2011

From 90s when Telephone (Fixed Wire-line) was a luxury, with low penetration levels helped by the uneven terrains Indian telecommunication industry has taken a big leap with wireless subscriber bases growing at a phenomenal pace from a mere 3m subscribers in Sep' 00 to around 870m as of Oct'11, implying a 60% CAGR. Although the primary reason for such a huge jump was the easy availability of the services vis-à-vis the earlier fixed telephony (a luxury), lower tariffs and more disposable income along with a large pool of young population. Over the years, wireless services has garnered over 90% of the total telephony market, with state-owned BSNL as the leader in the landline domain and Bharti Airtel leading the cellular services with other players like Reliance, Idea Cellular and Vodafone posing a tough competition. Among the various segments, cellular (mobile) segment has been the key contributor; especially prepaid services, with its wide offerings of services, has been leading the growth wave.

Indian rural region ... low teledensity with high BPL

Rural India encompasses ~70% population with 33% wireless teledensity

Today India is one of the fastest growing telecom markets in the world with penetration level as high as 150% in urban areas. Post the deregulation of the sector, growth has been skewed towards four metro service areas, which now exhibits characteristics of developed markets, with high value and penetration rates. Now the growth focus is shifting towards semi-urban and rural areas, which (the only plausible option, as the majority of population resides in these areas) have low penetrations, but pose new challenges. Future growth is expected to be driven by rural areas (which accomodates ~70% of the Indian population) where penetration levels (~33%) are still low, though we believe that incremental subscriber addition will come at low ARPUs and at a slower pace due to presence of a huge BPL (below poverty line) population. Also, low penetration regions are difficult-to-reach regions in terms of poor infrastructure, electricity shortages and low capita per GDP. Although, all these factors do not totally undermine the demand for telecom services, subscriber growth will remain subdued going forward.

Indian wireless market - highly competitive

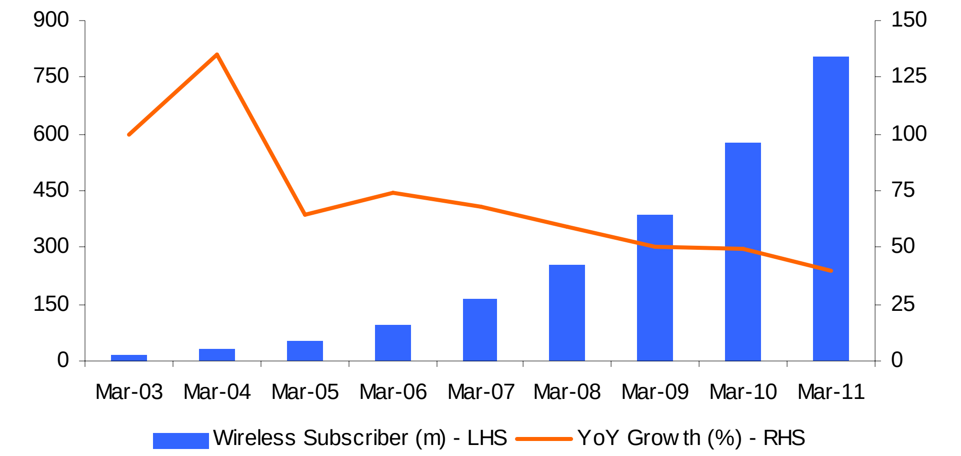
Early signs of tariff hike are not encouraging

Currently there are six major players in the telecom space fighting a pitched battle to increase their market share in the low ARPU rural market. While Bharti Airtel, Vodafone and Idea Cellular are the leading players in the GSM arena, Reliance communications and Tata Teleservices have captured majority of CDMA services space in mobile telephony, although in last few years both of them have also shifted aggressively in the GSM space. Till now all the above players were busy in tariff war and were launching unique schemes to lure subscribers (TTSL per second plan, Reliance 0.50/minute and R2R unlimited calls plan), however to our surprise for the first time all the major players have come out with tariff revisions as recently as July 2011; although we still need to wait and watch the possible impact of the same in coming quarters. However, early signs for the same are not very encouraging, for instance there has been a significant fall in net subscribers addition and also the total MOU have shown a declining trend in the last reported quarter - for the first time in the above service providers history.

After a stupendous growth in subscriber addition (~50% CAGR), net additions has started easing

After a stupendous growth in subscriber addition (~50% CAGR), net additions has started easing. The per month addition number has come down to an average of ~5m in the last few months vs. earlier average of more than ~8m subscribers. Examining in detail at the circle-wise population level and subscriber numbers, we believe that fall is primarily due to lower scope of penetration left in developed circles. Also the circles where penetration levels are low have their own set of economic and political issues along with difficult terrains like North East, J&K, Orissa and West Bengal.

Exhibit 1: Wireless subscriber vs. growth

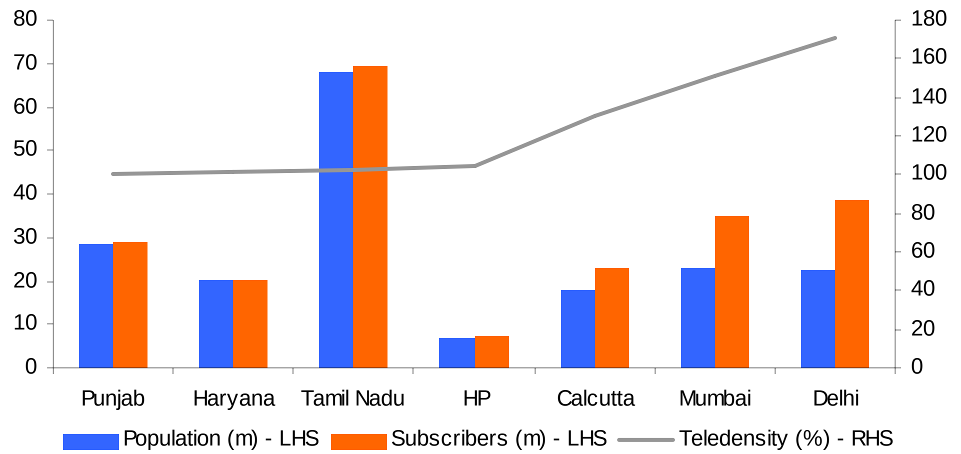


Source: TRAI, DoT, Company

Currently, in India, there are seven states/circles with more than 100% teledensity and seven with less than 60% teledensity

Currently, in India, there are seven states/circles with over 100% teledensity (ref. Exhibit 2) and seven with less than 60% teledensity (ref. Exhibit 3). States with less than 60% teledensity provide an ample opportunity for further penetration however at the same time they also have lowest GDP in comparison with other states, which indirectly implies that they have big pockets of the rural BPL population which will have a limited capability to spend and hence the incremental ARPUs and incremental additions will be lower vis a vis the current ARPUs and additions.

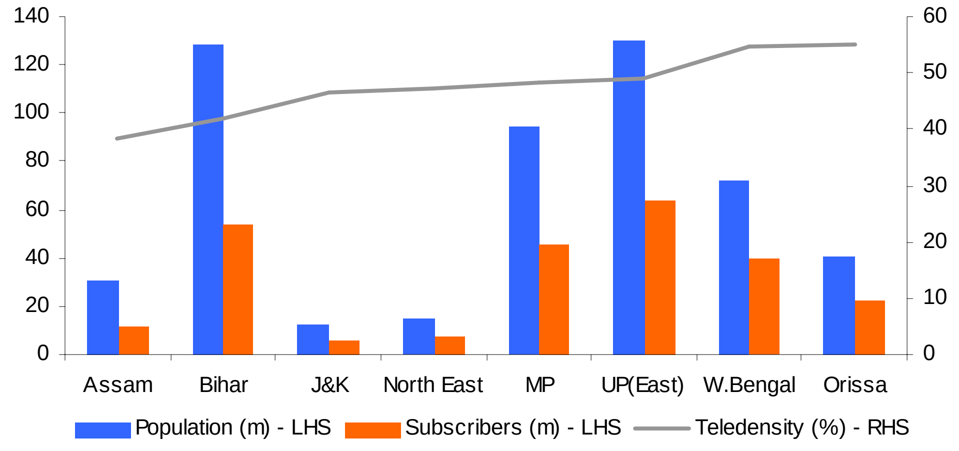
Exhibit 2: States with more than 100% teledensity



Source: Census, TRAI, Antique

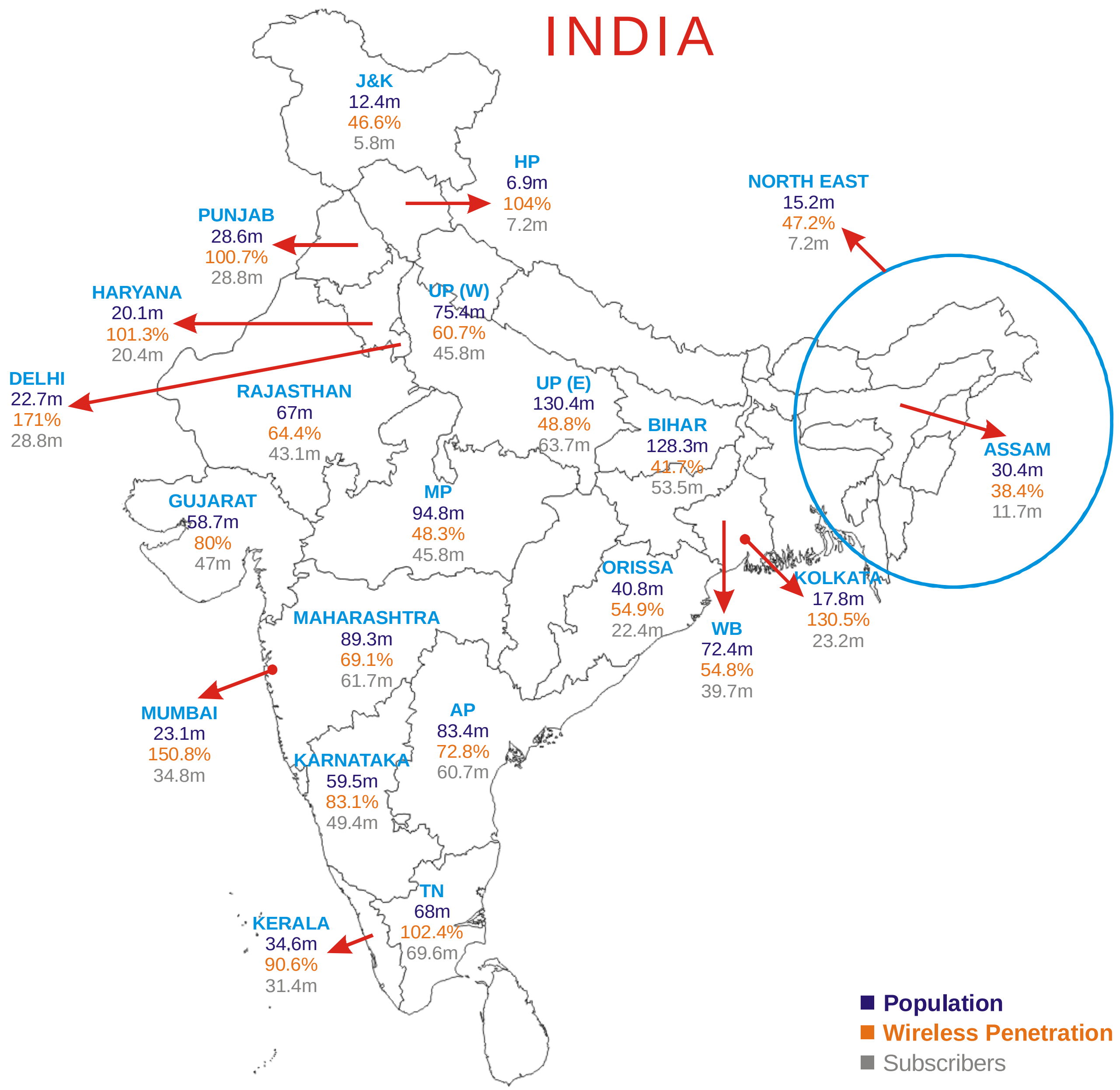
States with low teledensity have lower GDP too...

Exhibit 3: States with less than 60% teledensity



Source: Census, TRAI, Antique

Exhibit 4: Circle-wise population, penetration and subscribers



Note: Note: The above map is used for illustrative purposes only, and not for depiction of any geographical data; Source: TRAI, Antique and Census 2001 adjusted with growth rates.

Mobile number portability

MNP: A shift to better services - Incumbents gaining slowly

~18m subscribers have opted for MNP with ~1.7m from Gujarat alone

MNP (Mobile number portability) did not turn out to be a big game changer as expected before roll out on January 20, 2011, as till date only 18m subscribers have opted for a shift. In spite of the above trend till now on the net subscriber gain for service providers reflects a shift toward better services vs. lower tariffs for at least the loyal customers (postpaid). As per the available data (service providers), by the end of August 2011 about 18m subscribers have submitted their requests to service providers for porting their mobile numbers. Out of these, around 1m pertains to Haryana wherein MNP was implemented from Nov 25, 2010. In rest of the country, in MNP Zone-I (Northern & Western India), maximum number of requests have been received in Gujarat (1.7m), followed by Maharashtra (1.5m); whereas in MNP Zone-II (Southern & Eastern India), maximum number of requests have been received in Karnataka (1.4m) followed by Andhra Pradesh (1.4m). In Aug 2011, total number of subscribers submitting MNP requests stood at 2.5m (ref. Exhibit 5).

Idea added ~1.5msubscribers from MNP

Exhibit 5: Zone-wise MNP requests (in no.)

Zone -I	
Delhi	1,009,582
Gujarat	1,762,683
Himachal Pradesh	74,417
Haryana	971,790
Jammu & Kashmir	3,772
Maharasthra	1,477,490
Mumbai	672,998
Punjab	792,441
Rajasthan	1,291,842
UP - East	854,772
UP - West	1,061,858
Subtotal	**9,973,645**
Zone -II	
Andhra Pradesh	1,393,726
Assam	47,871
Bihar	417,552
Karnataka	1,401,092
Kerala	885,555
Kolkata	441,361
Madhya Pradesh	1,159,336
North East	12,539
Orissa	426,497
Tamil Nadu	1,236,094
West Bengal	664,134
Subtotal	**8,085,757**
Total (Zone-I + Zone-II)	**18,059,402**

Source: TRAI and COAI

As per a report by the telecom ministry, Idea has gained the maximum number of subscribers (~1.6m) from other service providers, followed by Vodafone (~1.2m) and Bharti (~0.3m). In terms of the same, major losers were: Reliance-CDMA, Reliance-GSM, Tata - CDMA and BSNL-GSM followed by other new entrants like Swan, HFCL, MTNL and Videocon.

Indian Telecom Sector

Sector undergoing industry specific and regulatory challenges

We believe that Indian telecom sector has gone through a massive transformation during the last two decades and has gained significant standing in the global arena. However, currently a number of challenges are faced by the sector including: **Industry challenges** - High penetration levels, high BPL population, limited 3G demand and fierce competition; **Sector challenges** - Resource constraints, new telecom policy, lower availability of 3G spectrum, excess spectrum charges, and abolition of 3G roaming charges; **Regulatory challenges** - Non-clarity on M&A, exit policies and 2G Spectrum overhang.

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Industry challenges

400m population below poverty line ... capping subscriber and ARPU growth

~400m of BPL population limits the scope of wireless penetration in India

The much criticized planning commission poverty line benchmark of less than INR32 and INR26 for urban and rural population respectively still leaves behind around one-third (400m) of the total population (1,198) below poverty line (bpl). We have done a simple analysis to calculate total subscriber addition by FY15e:

i. for urban population (~360m), we have assumed a tele-density of ~1.5x (currently ~1.57x, Source: TRAI) and arrived at a subscriber base of 649m (currently 561m), as we believe that there are lot of inactive/fake subscribers (~30%) in the system which will offset incremental subscriber addition.

ii. for rural population (~840m), we have assumed a penetration of 60% (ex-BPL population of ~300m) and arrived at a subscriber base of 302m (currently 289m).

iii. In addition to the above two, in the most optimistic scenario, there is also a probability of a further subscriber addition of 60m assuming 20% penetration for the BPL population.

Majority of incremental subscribers to come from low ARPU regions

Taking into account above three assumptions, we arrive at a total probable subscriber base of 1,011m for FY15e, implying a meagre 6% CAGR (ref. Exhibit 6). The above findings also limit our optimism on ARPU growth, as majority of subscriber addition is likely from the rural population which also includes a huge (>300m) BPL population. Moreover, going by circle-wise penetration, it is clear that incremental subscriber growth will come from circles with low per capita income, thereby putting additional pressure on the incremental ARPUs.

In the last few years, subscriber growth in the Telecom sector has been phenomenal, driven by low tariffs and penetration into unexploited BPL rural population. At the end of June 2011, the total reported wireless subscriber base stood at ~850m with a urban tele-density of 1.5x and rural penetration of 0.33x. This high growth has also resulted in a tariff war in the voice services.

We expect rural : urban population to be 35% : 65% by FY15e

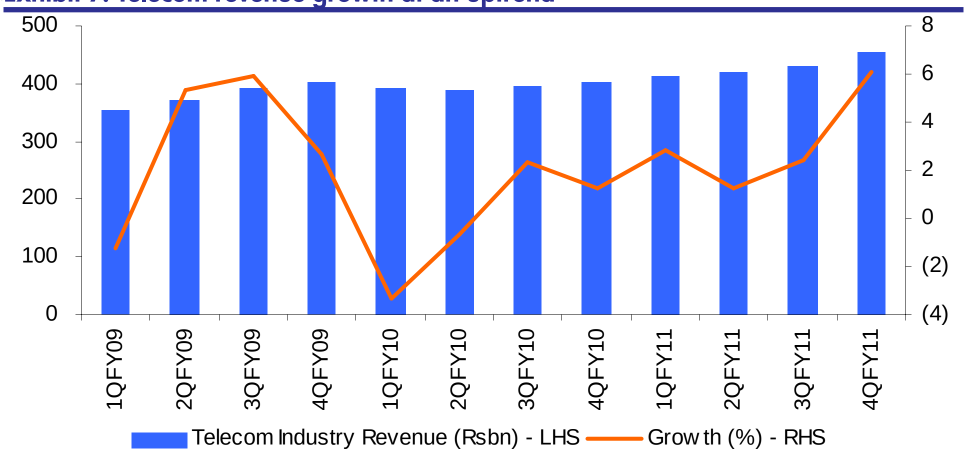
Exhibit 6: Subscriber growth calculation

	Current		FY15e	Chg (m)
Population (m)	**1,198**		**1,237**	
Urban	359		433	
Rural	839		804	
Wireless teledensity (x)			**Non-BPL**	
Urban	1.56		1.5	
Rural	0.34		0.6	
Wireless teledensity (m)				
Urban	561		649	88
Rural	289		302	13
Total	**850 (i)**		**951**	**101(ii)**
Population (m)				
BPL				
Urban	100 (e)		No change	
Rural	300 (e)		No change	
Non-BPL				
Urban	-		-	
Rural	-		504*	
Potential teledensity (BPL)				
Rural BPL (m)	300			
Members/HH (ii)	4			
No of households (i/ii)	75			
Incremental BPL subscriber		**80%**	**60**	**60 (iii)**
Total Incremental subscribers (ii) + (iii)			**161**	
Total potential subscribers by 2015 (i) + (ii) + (iii)				**1,011**

* Rural for FY15e less 300m (assumed)BPL rural population; Source: TRAI, Census, Antique

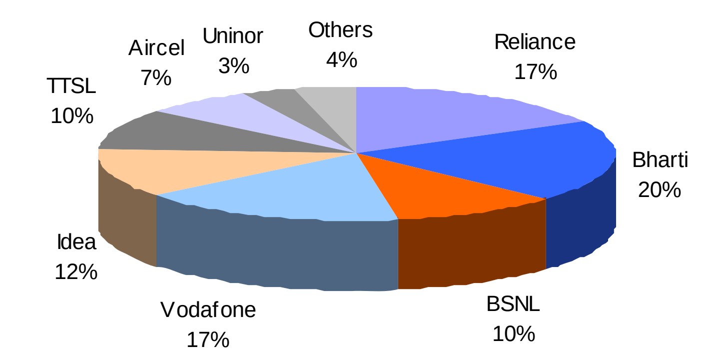
Increase in penetration levels boost revenues

Exhibit 7: Telecom revenue growth at an uptrend



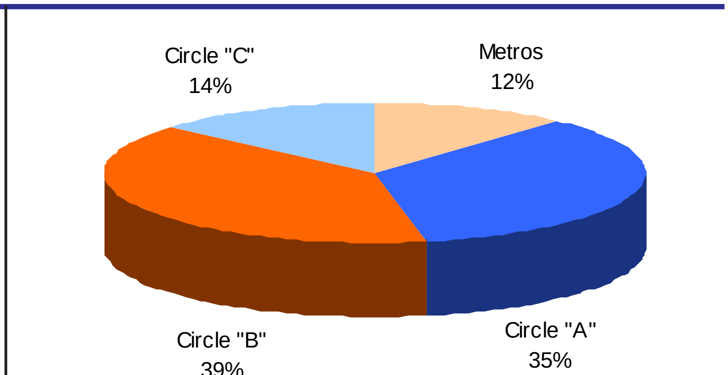
Source: TRAI, DoT, Company, Antique

Exhibit 8: Market share of service providers as on March 2011



Source: TRAI, Antique

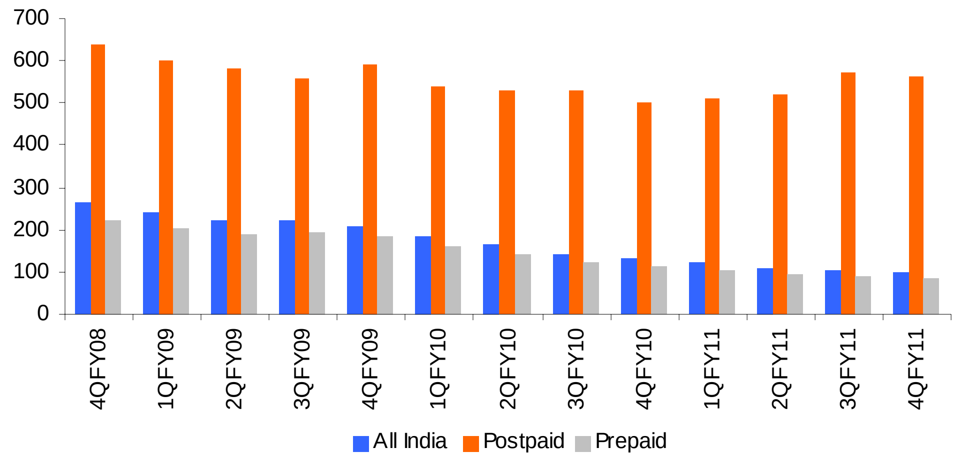
Exhibit 9: Circle-wise market share as on March 2011



Source: TRAI, Antique

ARPU to fall going forward

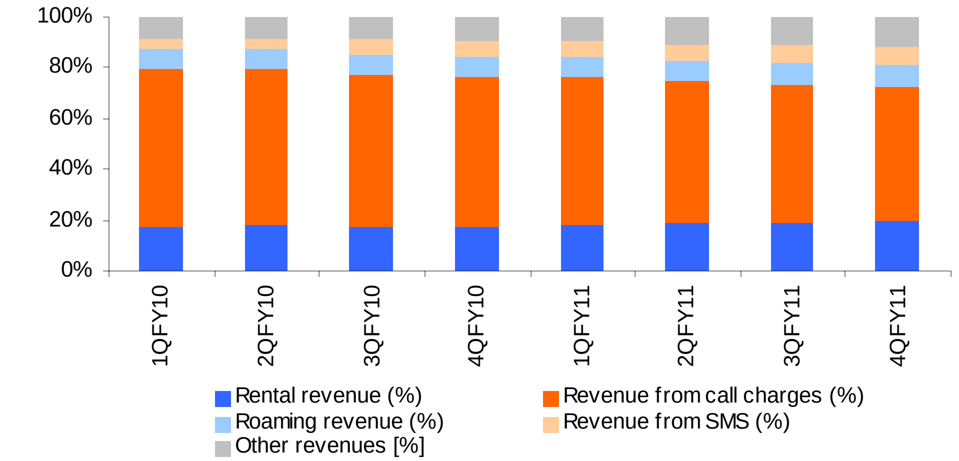
Exhibit 10: ARPU (INR)



Source: TRAI, DoT, Company

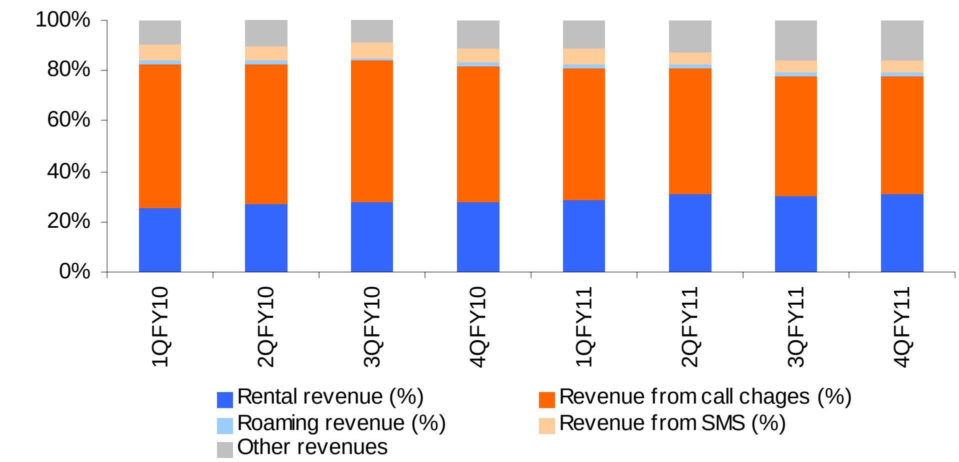
Revenues from call charges as % of total revenue are decreasing while other revenues are increasing

Exhibit 11: GSM - revenue components



Source: TRAI, DoT, Company

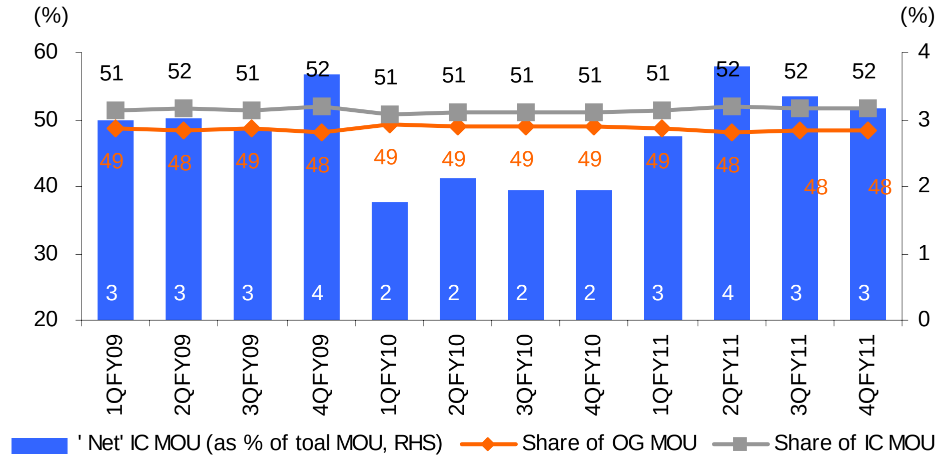
Exhibit 12: CDMA - revenue components



Source: TRAI, DoT, Company

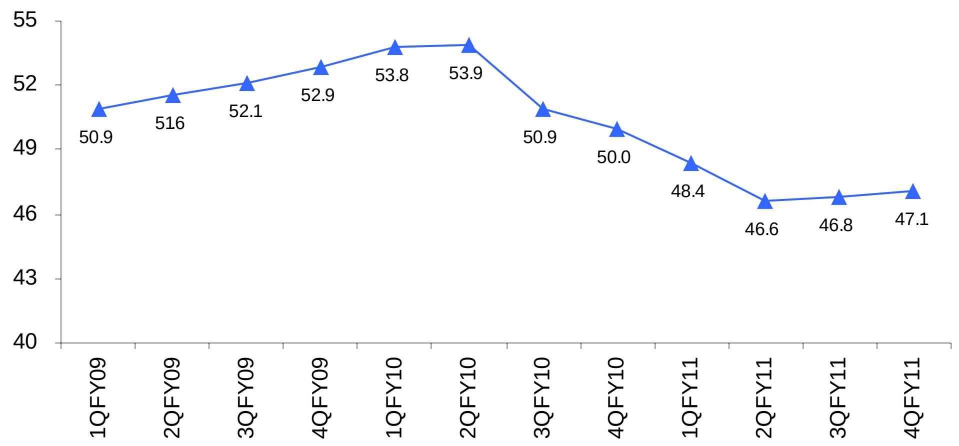
Incoming MOU greater than outgoing MOU for GSM

Exhibit 13: GSM MOU



Source: TRAI, DoT, Company

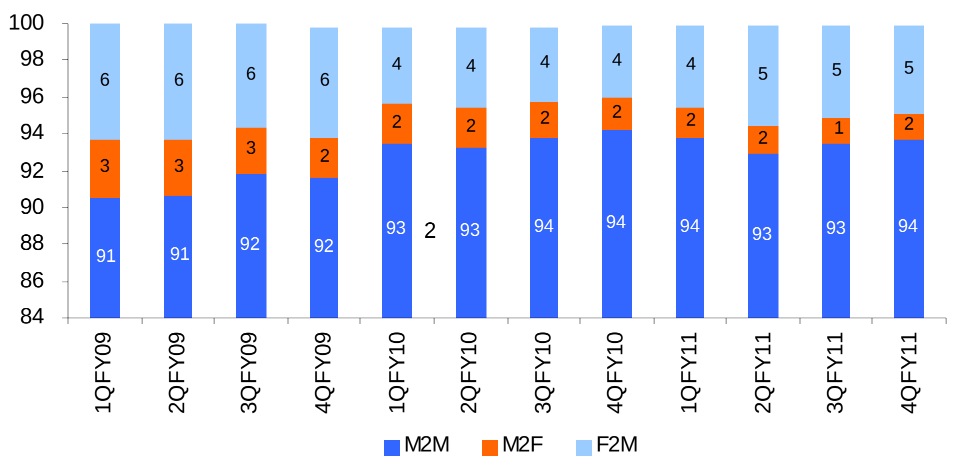
Exhibit 14: On-net traffic below 50% of total OG MOU



Source: TRAI, DoT, Company

GSM - M2M composes more than 90%

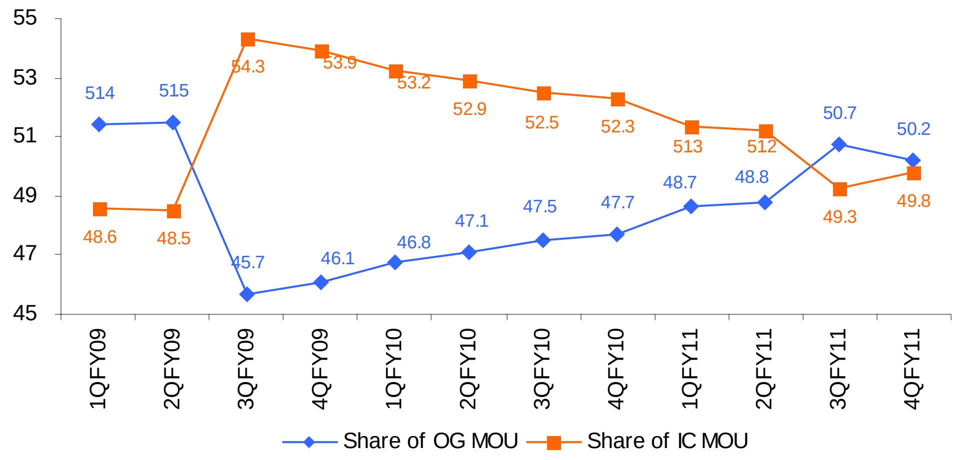
Exhibit 15: Calling pattern



Source: TRAI, DoT, Company

Outgoing MOU more than incoming MOU for CDMA

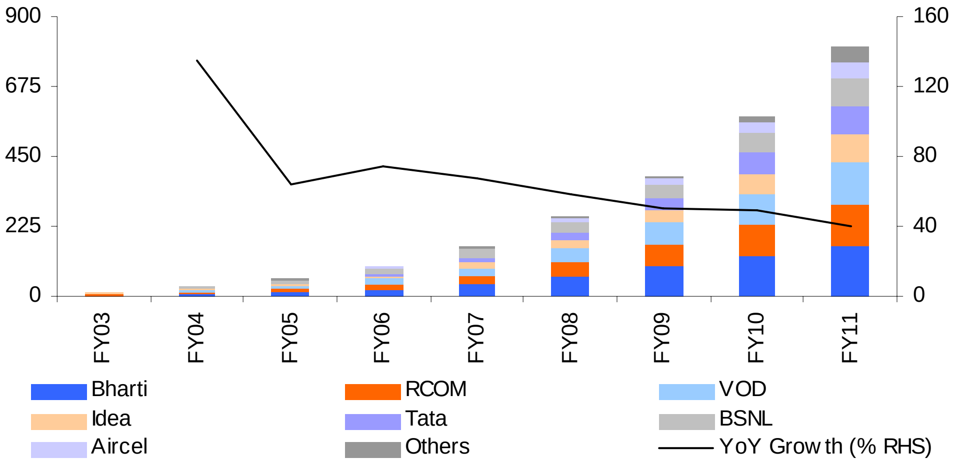
Exhibit 16: CDMA MOU



Source: TRAI, DoT, Company

Subscriber growth declining

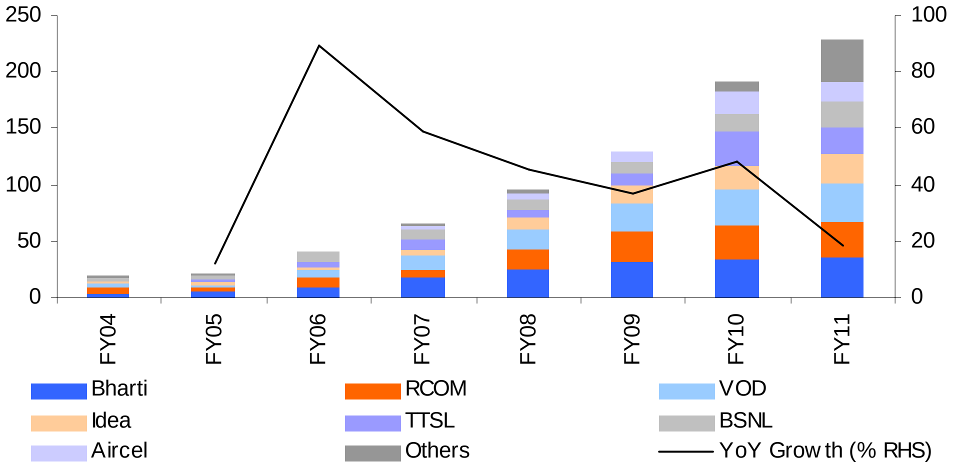
Exhibit 17: EOP subscriber growth rate



Source: TRAI, DoT, Company

Net subscriber addition growth declining

Exhibit 18: Subscriber addition (m) vs YoY growth (%)



Source: TRAI, DoT, Company

Increase in tariff rates to reduce MOUs: Tariff elasticity negative?

Total MOUs had fallen for both Bharti and Idea post tariff hike in July 2011

The low per capita rural income coupled with presence of more than eight service providers in each telecom circle limits the scope of tariff hikes. In our opinion, majority of subscribers have a limited appetite for telecom spends, and thereby, any significant tariff hike will definitely impact the usage (which implies tariff elasticity to MOU <0). This coupled with TRAI's displeasure augments well to keep tariffs under control.

In our view the Indian subscribers have a cap on telecom spend and any increase in tariff has a balancing impact on the MOUs which keeps the ARPU levels range bound.

We also believe that the majority of subscriber addition here onwards will come from rural subscribers which have a significantly low per capita income, and thereby will reduce the overall ARPUs further.

To further substantiate our belief, we have seen that the total MOU has fallen for the first time post tariff hike in the last quarter for both telecom operators, Bharti and Idea. Although both the managements have cited seasonal weakness as the prime reason for the decline but we believe and continue to maintain that tariff hikes will definitely impact the usage and more so in a highly competitive and new entrants market.

Presence of unhealthy tariff war in the telecom sector is also evident from the fact that more than ten service providers offer services in various circles, with each circle having at least 6-8 operators. Although the top 4-5 service providers control more than 85% of the subscriber base as at the end of June 2011, presence of multiple vendors has been a hitch (for instance, offers like 1paise/sec by TATA teleservices, 2 paisa/min by Uninor, etc.). This has put an upper cap on the usage/ARPMs for the service providers.

Exhibit 19: Bharti MOU

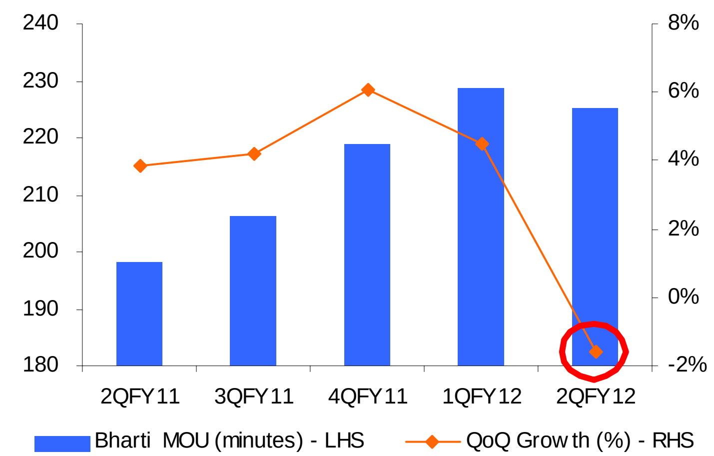
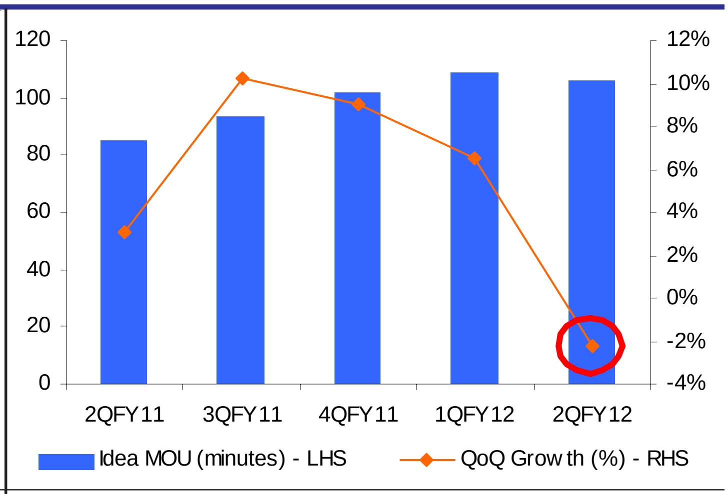


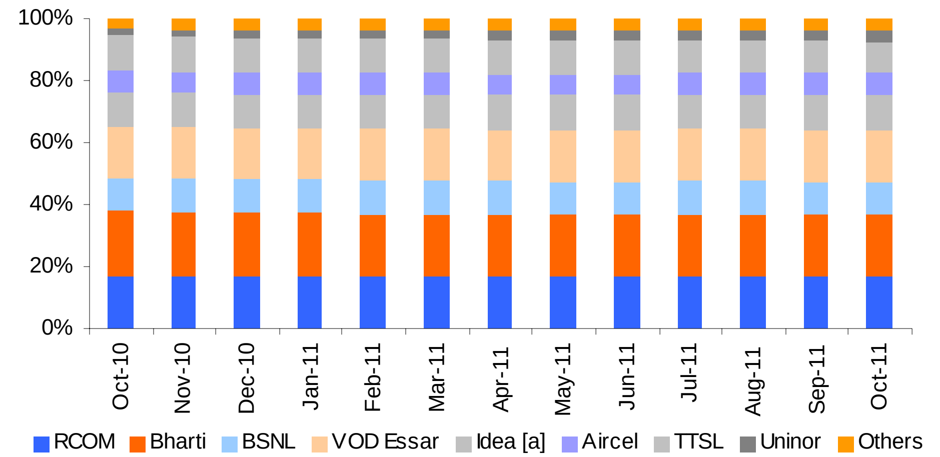
Exhibit 20: Idea MOU



Source: Company, Antique

Bharti continues to be the market leader

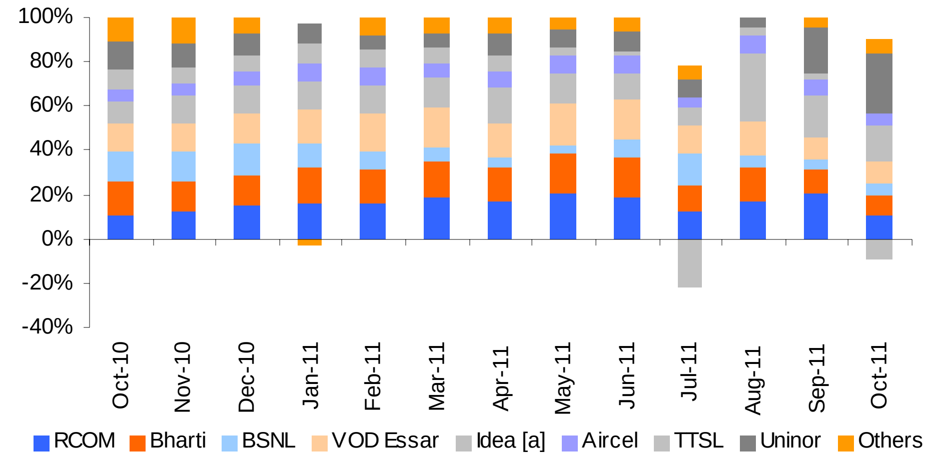
Exhibit 21: Market share of subs (%)



Source: TRAI, DoT, Company, Antique

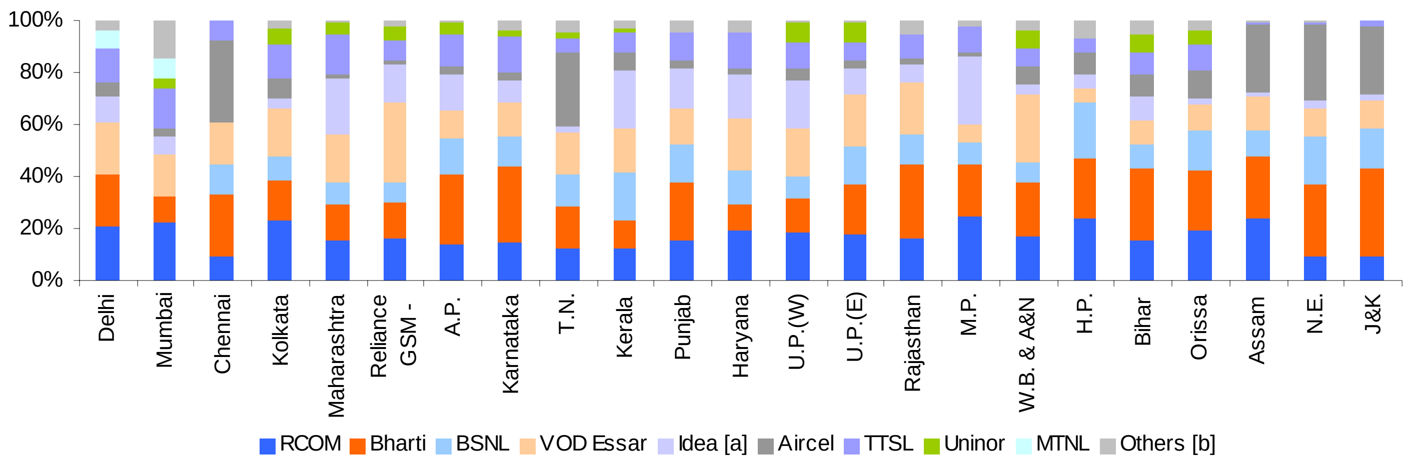
Idea and Uninor continue to lead net additions

Exhibit 22: Market share of net adds (%)



Source: TRAI, DoT, Company, Antique

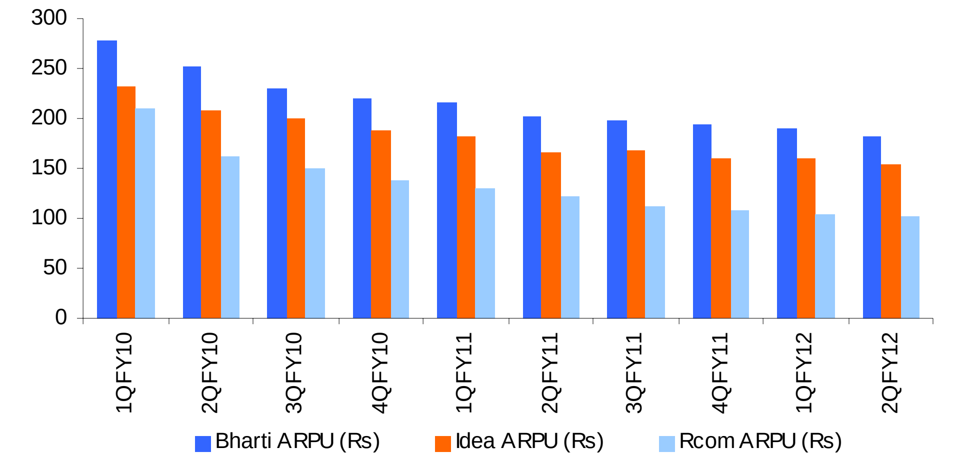
Exhibit 23: Market share of telecom players as on October 2011



Source: TRAI, DoT, Company, Antique

ARPU on a downtrend

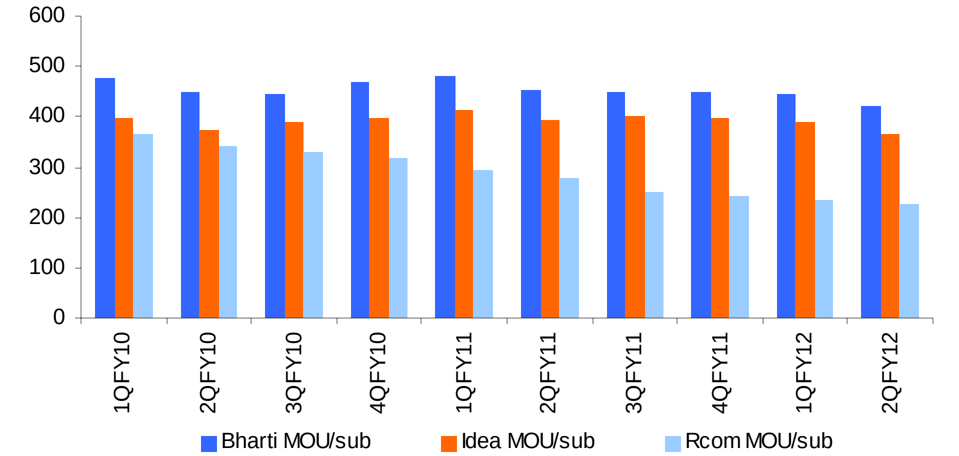
Exhibit 24: ARPU



Source: TRAI, DoT, Company, Antique

MOU for Bharti and Idea has declined post tariff hike

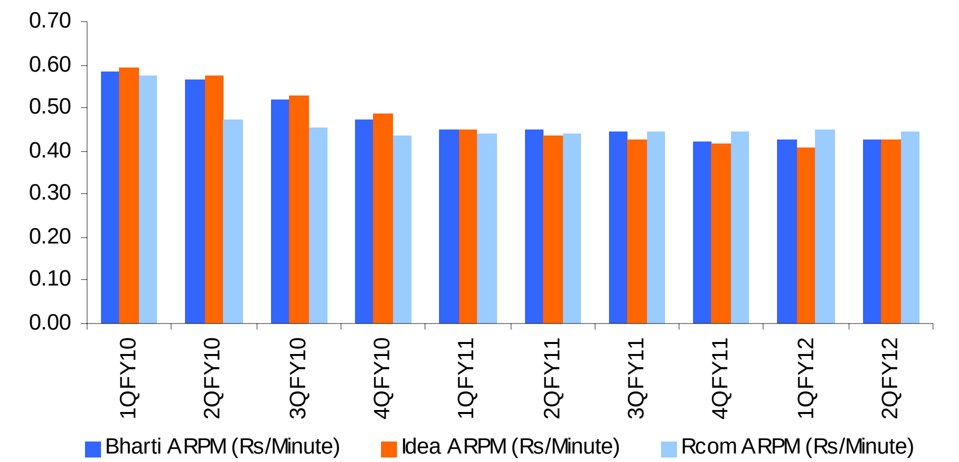
Exhibit 25: MOU



Source: TRAI, DoT, Company, Antique

ARPM marginally up

Exhibit 26: ARPM



Source: TRAI, DoT, Company, Antique

Limited 3G demand coupled with significant spectrum outflows and recurring capex will impact margins

3G subscribers at a meagre 12m till date

Although we believe that high competition amongst operators to gain subscriber share has resulted into aggressive bidding by incumbents to secure BWA license and spectrum which in a way will enable them to launch faster and more efficient voice and data services. However, at the same time the amount paid to acquire the same looks quite unreasonable currently. The telecom operators have paid close to USD20bn for 3G and BWA charges, while the smart phone penetration in the country remains at a meagre ~4% and the response for 3G is also not very optimistic.

Till date, the subscriber addition for 3G services had been dismal (~12m subscribers), which definitely doesn't justify the cost. This coupled with recent move to cut 3G tariffs clearly substantiates our view that the ability to pay for data remains limited. We anticipate that leading players may widen their VAS and Data offerings in coming months.

Idea added ~2.5m 3G subscribers till date

There are 12m 3G subscribers in India as of Oct 2011, which is a meagre 1.5% of the total ~870m subscribers. The above subscriber number looks dismally low against market prediction of ~100m subscribers by end of 2014. The above disappointing performance of 3G services has been due to constraints from technical as well as handset front. From the technical constraints perspective, the current spectrum deficiency is the biggest challenge, leading to channelising of the available spectrum for more and more voice services, thereby leading to bad quality of service and lower incremental ARPUs. Adding to the above woes, another hitch is sudden spike in data usage in metros due to 3G rollouts, resulting in a tough time for operators who have been grappling with managing the voice piece which still dominates the total usage. Secondly, scalability of infrastructure, high OPEX and low ROI poses a greater threat to the overall idea of the data business model. Also, the availability of compatible handsets at low price points remains an issue. Moreover the 3G data services are priced sky high (7x that of GPRS/EDGE), posing a hindrance to mass adoption. Coupled with these. other issues like availability of content in regional languages and last mile connectivity problems poses other challenges that need to be tackled. Although the silver lining in the above issues had been the recent foray of low-cost 3G handsets starting into the market which will streamline the handset issue in coming days.

3G pricing and packaging

3G subscription slashed by ~50-60% in last six months

Pricing of data services has also been a major bottleneck, however, telecom operators have off late realised that in India the cap on spend is predetermined and usage varies with price. Most of the 3G operators slashed the initial prices by almost 50-60% in the last six months. Also, an important factor to be considered in pricing is the fact that India is mostly a prepaid market (close to 96% of the country's subscriber base is on prepaid) which leaves operators with little choice other than offering prepaid plans while Internet services have traditionally followed the monthly rental plan. Also similar to global patterns Indian metros are also seeing maximum subscriber addition currently in the postpaid apce with Blackberry and Apple users leading the race.

We continue to believe that 3G will remain in gestation period for at least next 4-5 years before which they can make any positive impact on the profit levels and can become accretive at ROI levels.

New Telecom Policy

The draft NTP 2011 was announced by the telecom ministry on October 10, 2011. Although the draft policy was silent on few key concerns like spectrum pricing, M&A and license fees, it had positive points on spectrum pooling, sharing and trading and giving infrastructure status to Telecom, thereby relaxing capital availability and taxation for the sector. Following are the key points:

NTP - a mixed bag of good and bad

Abolition of Roaming charges

As per the latest TRAI proposal, mobile operators cannot charge any roaming rentals and maximum permissible per minute charges lies between INR1.4-2.4/min for local and national outgoing calls. NTP talks about abolishing roaming call charges. This means the current structure of having separate license for each circle will turn into a unified license for all the circles. Currently, the call charges for the telecom operators lie between INR0.9-1.5/min. Even if we assume our premise of negative price elasticity of tariff and usage and assume that the usage will go up with abolition of roaming charges, we believe that it will impact incumbent revenue by 2-5% which will directly impact the EBITDA of these companies (ref. Exhibit 27).

Exhibit 27: Idea Cellular FY13e

	With no impact on MOU		MOU increases by 50%		MOU increases by 100%	
	Bharti	Idea	Bharti	Idea	Bharti	Idea
ARPU (INR)	189	159	189	159	189	159
Est ARPU based Rev for FY13e (INRm)	394,911	204,314	394,911	204,314	394,911	204,314
Roaming revenue (%)	6	6	6	6	6	6
Current Roaming revenue (INRm)	23,695	12,259	23,695	12,259	23,695	12,259
Current Roaming revenue (INR per subs)	11.4	10	11.4	10	11.4	10
Roaming call rates (INR per min)	1	1	1	1	1	1
% increase in MOU			50	50	100	100
Outgoing Minutes @50% (mins)	5.7	5	8.5	7	11.4	10
Incoming Minutes @50% (mins)	5.7	5	8.5	7	11.4	10
Normal call rates (INR)	0.5	0.5	0.5	0.5	0.5	0.5
Revised revenue from roaming (INR)	2.8	2.4	4.3	3.6	5.7	4.8
Loss of revenue from roaming (INR)	8.5	7.2	7.1	6	5.7	4.8
Impact of roaming charges abolition on rev (%)	4.5	5	3.8	4	3	3
Rev loss from roaming chgs abolition (INRm)	17,771	9,194	14,809	7,662	11,847	6,129
Current EBITDA Margin on roaming (%)	45	35	45	35	45	35
Current Roaming EBITDA (INRm)	10,663	4,291	10,663	4,291	10,663	4,291
New Roaming EBITDA (%)	45	35	45	35	45	35
New Roaming EBITDA (INRm)	2,666	1,073	3,998	1,609	5,331	2,145
EBITDA loss (INRm)	7,997	3,218	6,664	2,682	5,331	2,145
Estimated EBITDA for FY13e	282,118	57,795	282,118	57,795	282,118	57,795
EBITDA Impact (%)	3	6	2	5	2	4

Source: Company, Antique

Future spectrum is expected to be made available based on market determined price

Limited availability of spectrum, no detail on spectrum renewal fees/excess spectrum

Limited availability of spectrum was quite evident from the aggressive bidding for 3G and BWA vs. expectation (while PAN India 3G was expected to be in the range of USD1.5-2bn, it was awarded for ~USD4bn), although government has expressed its willingness to provide spectrum in various bands in the coming years which probably can increase asset utilisation and result in lower capex and higher revenues.

While government in the past has used both the methodologies i.e. first come first serve in case of 2G and open market auction in case of 3G, still it lacks to provide any clarity on how the excess spectrum allocation will be handled. Future spectrum is expected to be made available at market-determined prices and the grant of license will be delinked from the grant of spectrum.

Exhibit 28: Existing 2G spectrum with major players

	Bharti	Vodafone	Idea	Rcom	Aircel	BSNL
Delhi	10.0	10.0	8.0	4.4	4.4	
Mumbai	9.2	10.0	4.4	4.4	4.4	
Kolkata	8.0	9.8	4.4	6.2	4.4	10.0
Maharashtra	6.2	6.2	9.8	4.4	4.4	8.2
Gujarat	6.2	9.8	6.2	4.4	4.4	9.8
AP	9.2	6.2	8.0	4.4	4.4	6.2
Karnataka	9.8	8.0	4.4	4.4	4.4	10.0
Tamilnadu	9.2	7.2	4.4	4.4	9.8	9.2
Kerala	6.2	6.2	8.0	4.4	4.4	10.0
Punjab	7.8	6.2	4.4	4.4	4.4	6.2
Haryana	6.2	6.2	6.2	4.4	4.4	6.2
UP (W)	6.2	6.2	8.0	4.4	4.4	6.2
UP (E)	7.2	8.2	6.2	4.4	4.4	7.2
Rajasthan	6.2	6.2	6.2	4.4	4.4	6.2
MP	6.2	4.4	8.0	6.2	4.4	8.0
West Bengal	6.2	6.2	4.4	6.2	4.4	6.2
HP	6.2	4.4	4.4	6.2	4.4	4.4
Bihar	8.0	4.4	4.4	8.0	4.4	9.2
Orissa	8.0	4.4	4.4	6.2	4.4	4.4
Assam	6.2	4.4	4.4	6.2		4.4
NE	4.4	4.4	4.4	6.2	4.4	6.2
J&K	6.2	4.4	4.4	4.4	4.4	4.4

Source: TRAI, Company, DoT

M&A and Exit Policy

Current M&A policies restrictive in nature

The current policies have been framed in such a way that they are not implementable or in other words restrict M&A in the sector. Although government has indicated to come up with a new exit policy soon, till that time consolidation in the sector looks difficult and the new operators with idle capacities will continue to compete with incumbents and will put a restrain on ARPM and MOU growth. While current regulation as per DOT's circular on April 22, 2008 looks very stringent, TRAI has also come up with new recommendation for the same.

Exhibit 29: Current M&A regulations vs TRAI recommendations

Current M&A Regulation (DOT 22nd April 2008)	TRAI Recommendation
M&A shall not be allowed if the number of UAS/CMTS access service providers reduces below four.	M&A shall not be allowed if the number of UAS/CMTS access service providers reduces below five.
The market share of merged entity shall not be greater than 40% either in terms of subscriber base separately for wireless as well as wireline subscriber base or in terms of Adjusted Gross Revenue.	The market share of merged entity shall not be greater than 30% either in terms of subscriber base separately for wireless as well as wireline subscriber base or in terms of Adjusted Gross Revenue.
No single company/ legal person, either directly or through its associates, shall have substantial equity holding in more than one LICENSEE Company in the same service area for the Access Services namely; Basic, Cellular and Unified Access Service. 'Substantial equity' herein will mean 'an equity of 10% or more'. A promoter company/ Legal person cannot have stakes in more than one LICENSEE Company for the same service area."	—

Source: TRAI, DoT

Other key highlights of current regulation

- Consequent upon the Merger of licences in a service area, the post merger licensee entity shall be entitled to the total amount of spectrum held by the merging entities, subject to the condition that after merger, licensee shall meet, within a period of 3 months from date of approval of merger by the Licensor, the prevailing spectrum allocation criterion separately for GSM & CDMA technologies, as in case of any other UAS/CMTS licensee(s).
- Any permission for merger shall be accorded only after completion of 3 years from the effective date of the licences.
- The duration of license of the merged entity in the respective service area will be equal to the remaining duration of the License of the two merging licensees whichever is less as on the date of merger.

Positive aspects of the NTP 2011

NTP proposes to increase spectrum availability going forward

The NTP proposes to increase the spectrum availability going forward, therby addressing a part of resource constraint issue. Secondly, single license for all kind of services will reduce the hassles of multiple licenses and processes although there is a lack of clarity what it exactly means. Thirdly, the NTP also proposes sharing of networks and delinking the licensing of networks from delivery which might enable faster roll out of services. Although all the above looks like a mixed bag with some negatives on incumbents due to loss of roaming revenues, it also provides a breather in a way that going forward new players might be allowed to sale or share some idle spectrum which will help the incumbent to come out of current crunch and will also weed out the unhealthy competition.

Scam hit 2G - a hanging sword

2G scam and long pending investigations has resulted into uncertainity in the sector

While the sustenance of many of the small pure 2G operators is becoming difficult due to high reliance on voice based ARPUs (which is also on a declining trend), we believe that the ongoing investigations on the 2G spectrum allocations is a hanging sword, not only on the incumbents but also on the new players. The uncertain environment has impacted the new players more than the incumbents due to lack of clarity on license renewals, excess spectrum re-allocation and ongoing investigations.

Reco	:	HOLD
CMP	:	INR344
Target Price	:	INR379
Potential Return	:	10%

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Market data

Sector	:	Telecom
Market Cap (INRbn)	:	1,297
Market Cap (USDbn)	:	24.7
O/S Shares	:	3,798
Free Float (m)	:	1,024
52-wk HI/LO (INR)	:	448/304
Avg Daily Vol ('000)	:	8,757
Bloomberg	:	BHARTI IN

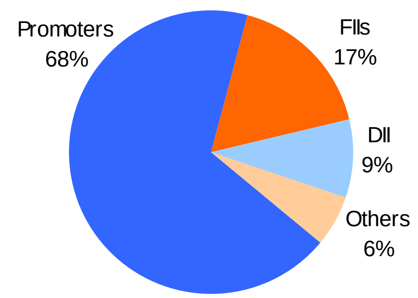
Source: Bloomberg

Returns (%)

	1m	3m	6m	12m
Absolute	(12)	(13)	(13)	3
Relative	(11)	(6)	(2)	31

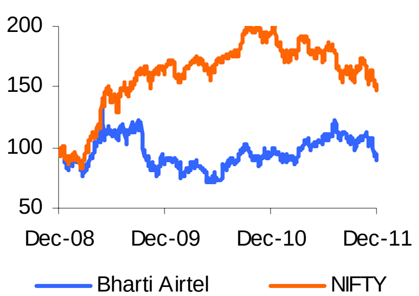
Source: Bloomberg

Shareholding pattern



Source: BSE

Price performance *vs* Nifty



Source: Bloomberg

RE-INITIATING COVERAGE

Bharti Airtel Limited

African story - under gestation

Investment rationale: Mix of hope and caution

Turnaround in African operations - the 'key'

Bharti Airtel Limited (Bharti) is our preferred pick in the Indian telecom services space based on its capability to turnaround Africa operations. Our confidence also stems from the fact that Africa (barring a few countries) has very low penetration level (@42%) which provides a significant opportunity for Bharti to gain market share and increase subscriber base significantly. In addition to this, company's operational efficiency and execution excellence will enable it to turnaround its African operations. We believe that the incremental subscribers in Africa will have lower ARPUs comparatively, and therefore, have factored in the same while estimating our numbers.

Immediate tariff hikes & ARPU growth difficult

Although telecom sector has a scope for tariff hikes, limited pockets of Indian households and fierce competition act as a bottleneck for any near term ARPU growth. We believe that current high interest rate scenarios and govt. inaction is silently breaking the backbone of newcomers which can be positive for incumbents in long-term. Also, Bharti's net debt/ EBITDA is expected to fall from current 3x to 0.9x by FY15e.

3G - not a game changer yet

Although currently there is a very limited demand for 3G services (due to limitations on average telecom spend by households and low national per capita income), we believe that there is a reasonable scope of subscriber adds in 3G services in the urban areas going forward though at a reasonably lower incremental ARPU.

Valuation and outlook

Bharti, at the CMP of INR 344, is trading at a PE of 15.6x our FY13e estimated EPS of INR22. The forward EV/EBIDTA for FY13e is 6.3x. Although we believe that there is a high probability of turnaround in African operations, the muted growth in subscribers, ARPU and profitability in India mellows down our optimism on the company. We value Bharti at INR379 or at a P/E multiple 17x on our FY13e EPS implying a 10% upside from current levels. Therefore, we initiate coverage on Bharti with a HOLD recommendation.

Key financial

Year ended 31st March	2009	2010	2011	2012e	2013e
Net revenues (INRm)	373,521	418,472	594,672	703,729	781,690
EBITDA (INRm)	152,858	168,144	200,646	241,690	281,928
EBITDA growth (%)	34.1	10.0	19.3	20.5	16.6
PAT (INRm)	78,590	89,767	60,467	60,384	83,546
PAT growth (%)	22.9	14.2	(32.6)	(0.1)	38.4
EPS (INR)	20.7	23.6	15.9	15.9	22.0
P/E (x)	16.6	14.6	21.6	21.6	15.6
P/BV (x)	4.5	3.1	2.7	2.4	2.1
EV/EBITDA (x)	9.3	8.4	9.7	7.8	6.3

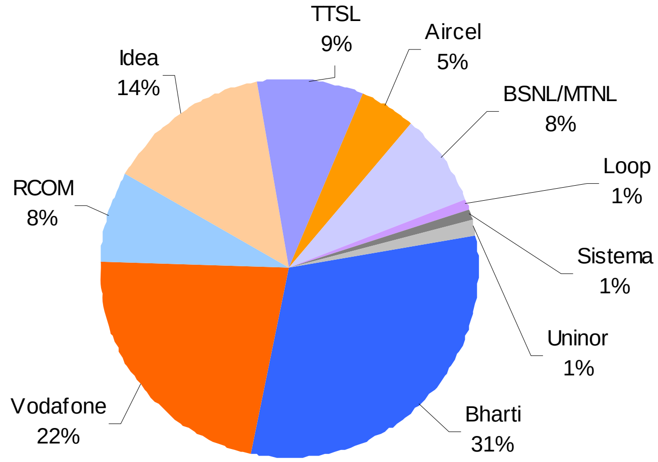
Source: Company, Antique

Company Background

Bharti Airtel leads Indian wireless sector with 20% subscriber market share and 30% revenue market share

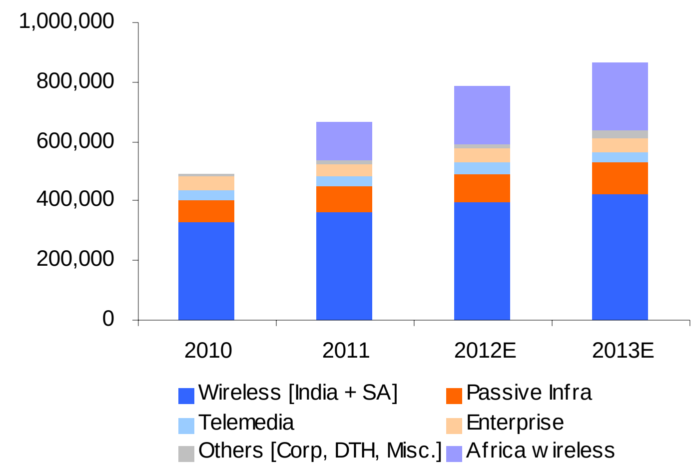
Bharti Airtel Limited (Bharti) is a leading telecom operator based out of Delhi with 20% subscriber market share and more than 30% revenue share. It provides GSM mobile services both in all the 22 telecom circles in India. The company got listed on the bourses in 2002 and since then had expanded its base in Sri Lanka (1.8m subs), Bangladesh (4m subs) and 16 countries of Africa (46.3m subs). It is also present in other non-mobile business segment such as Fixed landline, Broadband, Passive infrastructure and DTH. The company also has a 42% stake in Indus Tower Company, which is a JV between Bharti, Vodafone and Idea. Bharti Airtel has subscriber leadership in five circles and is a close runner up in other circles. As on Oct 31, 2011, the company has a subscriber base of 173.8m in India total subscriber base of 237m including Africa and South Asia. It reported revenues of INR172bn in 2QFY12 (including INR47bn revenue from its Africa operation).

Exhibit 1: Revenue market share



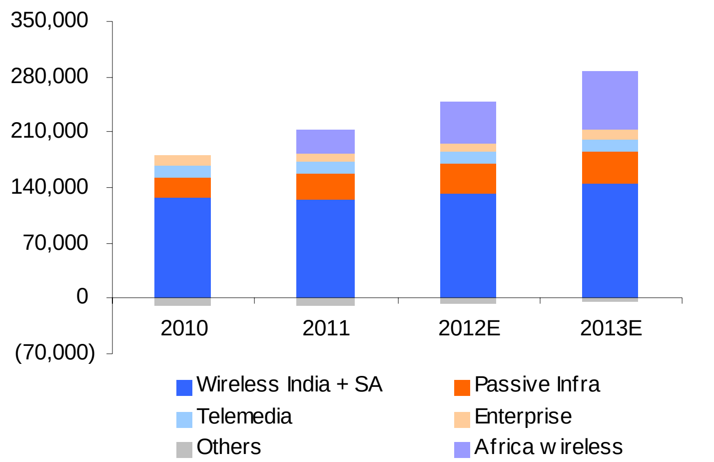
Source: TRAI

Exhibit 2: Bharti revenue break-up



Source: Company, Antique

Exhibit 3: Bharti EBITDA break-up



Source: Company, Antique

Business segments

Mobile Services (India & South Asia): Declining revenues and margins

Bharti's network is present in 5,115 census towns and 453,148 non-census towns and villages in India

Bharti has 173m mobile subscribers as on October 2011, and over 1.5m distribution outlets. Its network is present in 5,115 census towns and 453,148 non-census towns and villages in India, covering approximately 86.3% of the country's population. It also provide 3G services in key cities of the country offering innovative services like Mobile TV entertainment, video calls, live streaming of videos, high definition gaming along with access to high speed Internet. Its NLD infrastructure comprises 151,719 kms of optical fibre, providing a pan India reach. Airtel Sri Lanka has over 1.5m customers with presence in all 25 administrative districts of Sri Lanka with over 38,000 retailers for distribution. Airtel Bangladesh has 4.3m customers and offers mobile services across 64 districts of Bangladesh with a distribution network comprising over 72,000 retailers across the country.

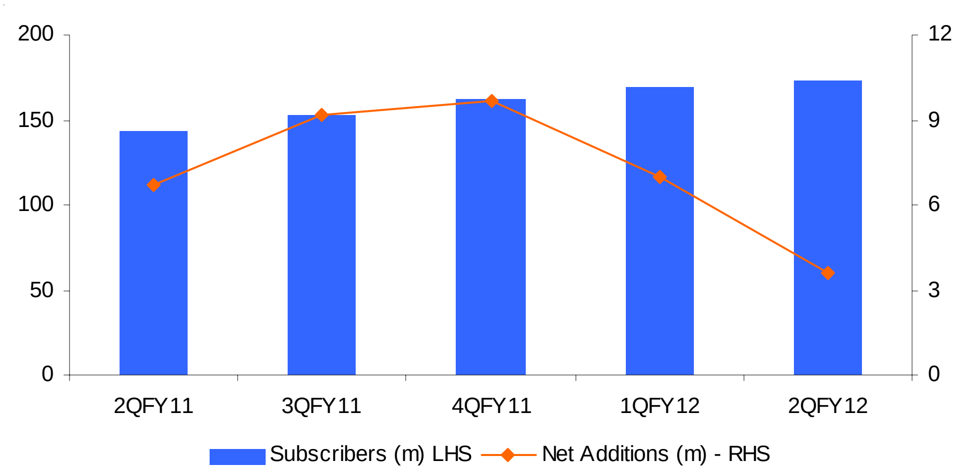
In the last few quarters, Bharti's revenue growth has been slow primarily due to sharp fall in subscriber additions while the margins have been under pressure due to lower growth in MOUs.

Exhibit 4: Quarterly financials

INRm	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12
Total revenues	88,189	91,620	95,224	98,404	97,827
EBITDA	31,150	31,914	31,970	33,614	32,926
EBIDTA margin (%)	35.3	34.8	33.6	34.2	33.7
EBIT	21,152	21,472	20,557	20,853	19,775
EBIT margin (%)	24.0	23.4	21.6	21.2	20.2
Capex	15,590	16,877	16,699	13,452	12,011

Source: Company

Exhibit 5: Subscribers vs. net additions



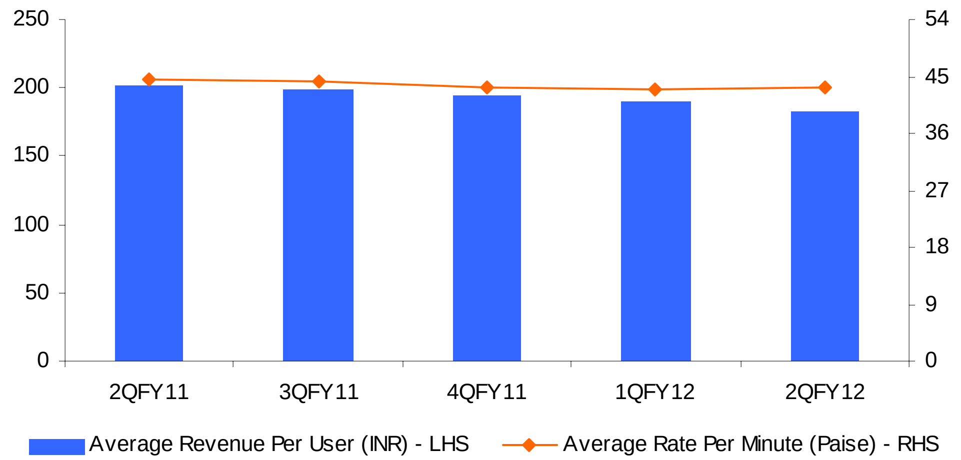
Source: Company

Bharti increased its tariff rates on July 22, 2011

Bharti increased its tariff rates on July 22, 2011 for its prepaid "Advantage pack" from 50 paisa/min to 60paisa/min , while SMS rates were increased from INR1/msg to INR1.5/msg across six major circles including Delhi and Andhra Pradesh. Post above tariff hike, we saw a fall in not only in ARPU levels but also a sharp fall (assuming net subscriber addition and 2 months impact) in total MOUs and ARPMs.

ARPU has declined with increase in rural penetration

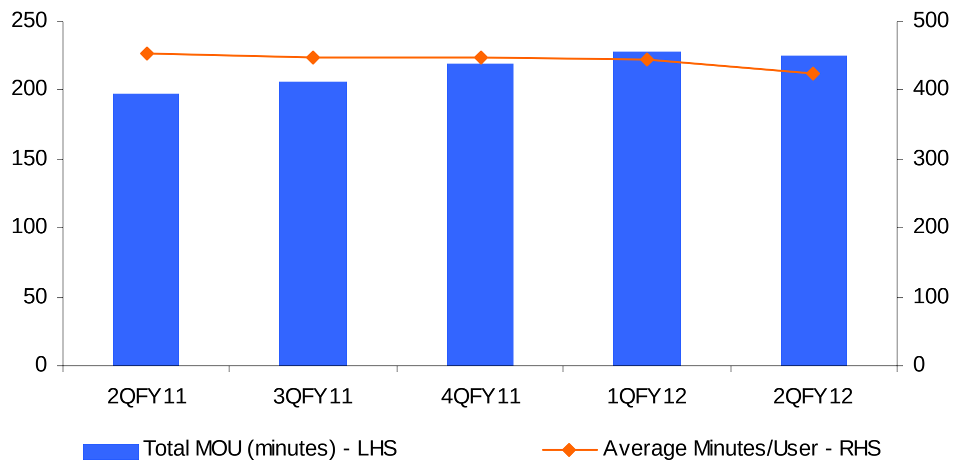
Exhibit 6: Bharti ARPU vs. ARPM



Source: Company

MOU started declining post tariff hike

Exhibit 7: Bharti MOU vs. AMPU



Source: Company

Mobile Services (Africa): The ray of hope

In the last few quarters Bharti's penetration and revenue growth has been robust along with a steady improvement in operating margins. We believe going forward Bharti will be able to align its Africa margins with India due to its excellent execution track.

Exhibit 8: Africa - revenue and margins

	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12
Total revenues (USDm)	838	911	924	979	1,030
EBITDA (USDm)	194	174	225	246	270
EBIDTA margin (%)	23.2	19.1	24.3	25.2	26.2
EBIT (USDm)	31	(7)	36	50	81
EBIT margin (%)	3.7	(0.8)	3.9	5.1	7.9
Capex (USDm)	84	306	382	420	575

Source: Company

Passive infrastructure, telemedia and enterprise can be positive surprises

The huge money paid for 3G auction by smaller players along with ongoing investigations and lack of investor interests in committing capital for newcomers have been a blessing in disguise for tower assets of Bharti. Bharti Infratel and Indus Towers can witness growth in tenancy once 2G investigations are over and new operators roll out their operations.

Infrastructure: Stable margins with consistent growth

Bharti Airtel's subsidiary, Bharti Infratel, provides passive infrastructure services to all telecom operators in India. It owns and manages telecom towers in 11 circles of India and also holds 42% share in Indus Towers (a JV between Vodafone, Idea and itself). Bharti Infratel has 33,056 towers in 11 circles, excluding 35,254 towers in 11 circles for which the right of use has been assigned to Indus with effect from January 1, 2009. Indus Towers has a portfolio of 108,998 towers including the towers under right of use. Thus, the total towers of Bharti Infratel were 78,835 and the total tenancies were 146,536 as on Sep 2011. During FY11, Bharti Infratel contributed ~INR86bn to the total revenues of Bharti with an EBIDTA margin of 37%.

High margin PI business growth at a steady pace

Exhibit 9: Passive infrastructure

INRm	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12
Total revenues	21,161	21,972	22,010	22,767	23,766
EBITDA	7,861	8,487	8,156	8,585	8,902
EBIDTA margin (%)	37.1	38.6	37.1	37.7	37.5
EBIT	2,886	3,558	2,672	3,433	3,520
EBIT margin (%)	13.6	16.2	12.1	15.1	14.8
Capex	5,912	5,666	5,716	4,115	3,743

Source: Company

Telemedia: Stable revenues with high margins

The segment has a total fixed line subscriber of 3.3m, of which 1.4m are broadband/ Internet subscribers. The segment focuses on providing telecom and software solutions to Small and Medium Business (SMB). With an average ARPU of INR951, the segment contributed INR36bn to the total revenue with an EBITDA of INR16bn. We expect ARPU to reduce slightly and subscriber growth to fall leading to a lower revenue growth in the segment.

Low subscribers growth resulting in lower revenue growth

Exhibit 10: Telemedia services

INRm	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12
Total revenues	9,528	9,457	9,178	9,068	9,118
EBITDA	4,213	4,304	4,195	4,085	4,270
EBIDTA margin (%)	44.2	45.5	45.7	45.0	46.8
EBIT	2,126	2,220	2,149	2,030	2,245
EBIT margin (%)	22.3	23.5	23.4	22.4	24.6
Capex	1,348	3,113	2,322	1,963	2,155

Source: Company

Enterprise: A stable story

Enterprise division covers long distance services to third party international and domestic telecom providers and integrated telecom solution to large enterprises. Captive National long distance services which was earlier included in the segment is now reported under Mobile services - India & SA. The segment contributed 7% (INR41bn) to the total revenue of Bharti in FY11 and is expected to grow at a CAGR of 6% over FY11-13e due to increasing Long Distance (LD) minutes and growing corporate base.

Exhibit 11: Enterprise business

INRm	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12
Total revenues	11,042	10,410	10,221	10,546	10,467
EBITDA	2,371	2,303	2,661	2,307	2,611
EBIDTA margin (%)	21.5%	22.1%	26.0%	21.9%	24.9%
EBIT	1,051	683	1,431	1,178	1,478
EBIT margin (%)	9.5%	6.6%	14.0%	11.2%	14.1%
Capex	116	933	1,062	827	1,542

Source: Company

Digital TV services: Robust growth with slow margin (EBIDTA) improvement

We don't expect digital TV to be profitable for next 2-3 years

DTH industry with an addition of 1m subscriber per month has reached a total subscriber base of 37m by June 2011 end. We believe that the industry will continue to grow at the similar pace adding 10-12m subs pa till FY14e. Bharti Airtel was the fifth player to enter the DTH business in 2008 and now has a market share of 18% with 6.6m subs by FY11 end. We expect DTH revenue to grow with increasing subscriber base but we don't see the segment to become earnings positive in next 3-4 years.

Exhibit 12: Digital TV services

INRm	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12
Total revenues	1,689	2,133	2,555	2,934	3,135
EBITDA	(611)	(150)	158	50	116
EBIDTA margin (%)	(36.2)	(7.0)	6.2	1.7	3.7
EBIT	(1,372)	(1,222)	(1,460)	(1,494)	(1,806)
EBIT margin (%)	(81.2)	(57.3)	(57.1)	(50.9)	(57.6)
Capex	3,447	3,881	1,987	3,014	2,610

Source: Company

Investment rationale

Turnaround in African operations - the 'key'

Bharti expects revenue and EBIDTA of USD5bn and USD2bn respectively by FY13e

The management of Bharti has a very optimistic view on African operations and based on the same it estimates revenue >USD5bn and EBIDTA >USD2bn for FY13e. However, considering that the incremental subscriber growth will come from relatively lower capita countries (in the African region), we are building in a reasonable EBIDTA of USD1.62bn. There can be an upside risk to our estimates in case the company is able to improve its operational efficiencies significantly by entering into outsourcing and strategic contracts with the local players. We also believe that Bharti is marginally well-positioned vis-à-vis other players domestically on account of higher subscriber base, lower churn rates and a good mix of non-voice revenues. We remain conservative on 3G growth for Bharti and believe that any meaningful contribution would take more than 2-3years from now. We also think that there will be a muted growth in subscriber addition, ARPU and earnings due to high penetration levels.

Bharti reported 48.5m subscribers at the end of September 2011

The African Terrain: A Glimpse

Bharti Airtel acquired Zain Telecom's mobile operations in 15 African countries in June 2010 for a consideration of USD9bn. Since then, the company has achieved reasonable success in building its brand and has been in the process of implementing its tested (in India) low cost model in Africa. In spite of being a high cost service provider at the time of acquisition, the company has been able to increase its subscriber base from 36.4m in June 2010 to 48.4m in Sept 2011, aided by consistent rationalisation of its tariff structure. Business-wise Africa has been a high ARPU, high tariff and low usage geography where Bharti expects to increase MOUs significantly, and thereby boost its revenues.

Africa: What makes us optimistic?

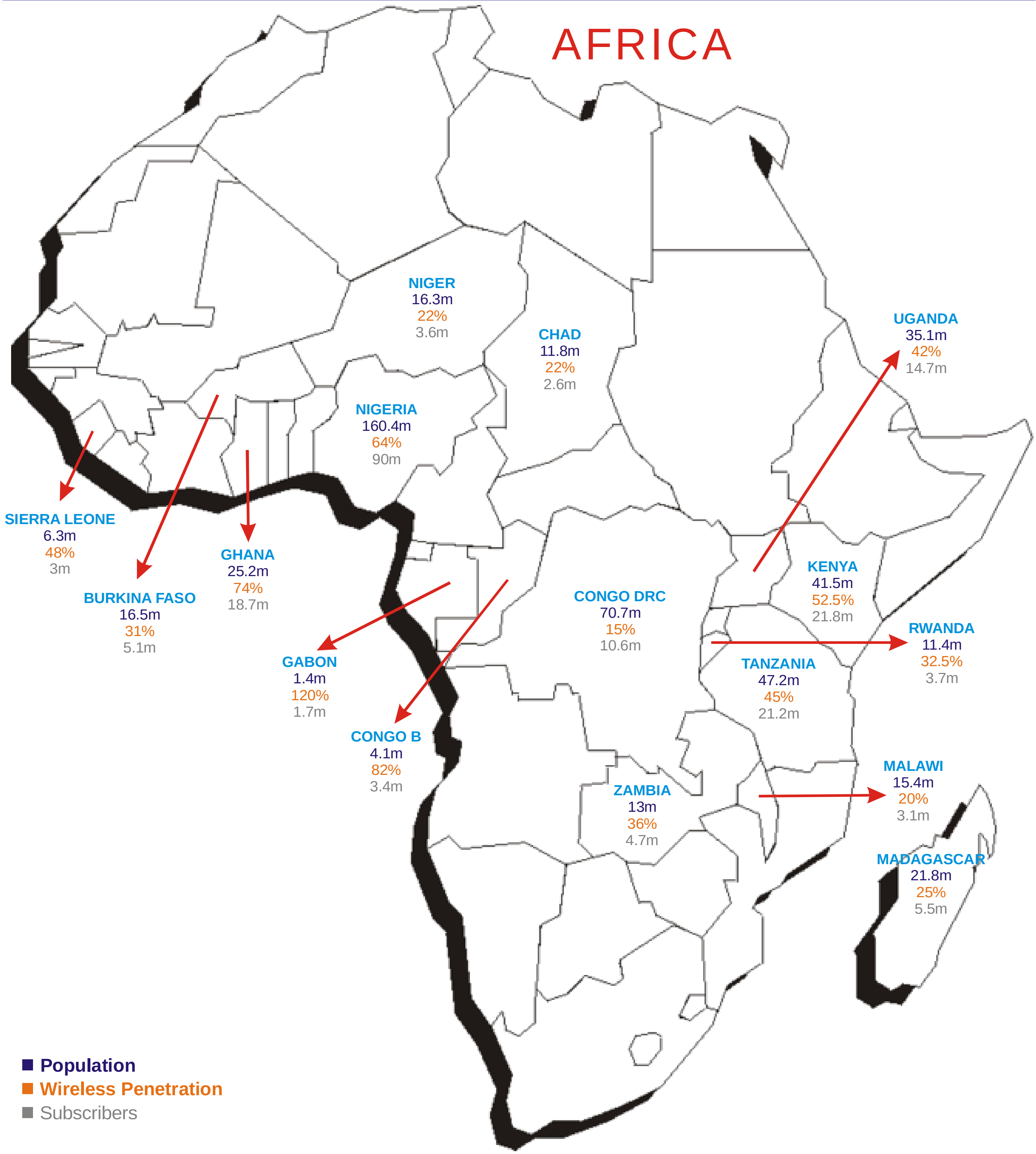
Bharti provides mobile services to its 48.4m subscribers across 16 countries in Africa including Nigeria, Burkina Faso, Chad, Congo B, Democratic Republic of Congo, Gabon, Madagascar, Niger, Ghana, Kenya, Malawi, Seychelles, Sierra Leone, Tanzania, Uganda and Zambia. It has also secured license to operate 2G and 3G network services in Rwanda. The company offers post-paid, pre-paid, roaming, Internet and other value added services. It recently launched 3G services in Congo B, offering services like Mobile TV entertainment, video calls, live streaming of videos, high definition gaming along with access to high speed Internet.

The five highly populated countries of Africa (Congo DRC, Kenya Nigeria, Tanzania and Uganda) still have low penetration levels which provides ample opportunity for Bharti to grow its subscriber base aggressively. We expect the penetration levels in all these five geographies to increase by another 20% in the next three years.

Africa - Where's the opportunity for Bharti?

The country-wise subscribers for Africa region clearly reflect significant opportunity in Congo DRC, Kenya, Nigeria, Tanzania and Uganda. We believe that Bharti's relatively better service and operational efficiency along with basket of service offerings will enable it to increase its market share from current 48m to ~100m in FY15e (implying a CAGR of ~23%).

Exhibit 13: Africa - Population, wireless penetration and subscribers (March 2011)



Note: The above map is used for illustrative purposes only, and not for depiction of any geographical data; Source: Regulatory authorities of respective countries, Antique

Exhibit 14: Africa - Zain's subscribers and market share

	FY10	FY11	FY12e	FY13e	FY14e	FY15e
Burkina Faso						
Subscribers (m)	1.6	1.9	2.7	3.4	4	4.5
Market share (%)	36.9	37	39	40	40	40
Chad						
Subscribers (m)	1.2	1.2	2	2.7	3.2	3.7
Market share (%)	48.1	48	48	48	48	48
Congo B						
Subscribers (m)	1.4	1.6	1.7	1.8	2	2.1
Market share (%)	45.9	46	45	45	45	45
Congo DRC						
Subscribers (m)	3.6	3.7	4.3	5.9	8.3	10
Market share (%)	35.5	35	35	36	36	36
Gabon						
Subscribers (m)	1	0.9	1.1	1.1	1.1	1.2
Market share (%)	53.9	54	55	55	55	55
Ghana						
Subscribers (m)	1.5	1.5	2	2.6	3.2	3.6
Market share (%)	8.5	8	10	12	14	15
Kenya						
Subscribers (m)	1.9	0.3	2.9	3.6	5	5.8
Market share (%)	9	1.5	11	12	15	16
Madagascar						
Subscribers (m)	1.7	1.6	2	2.4	2.8	3.3
Market share (%)	32.9	29	30	30	30	30
Malawi						
Subscribers (m)	1.9	1.8	3	3.9	4.7	5.4
Market share (%)	61.9	60	60	60	60	60
Niger						
Subscribers (m)	1.7	2	2.8	3.6	4.5	5.2
Market share (%)	55.4	55	55	55	55	55
Nigeria						
Subscribers (m)	14.7	16.2	17.5	23.8	28.8	33.1
Market share (%)	20.3	18	18.5	22	24	25
Sierra Leone						
Subscribers (m)	0.6	0.6	0.7	0.8	0.9	1
Market share (%)	20.9	21	22	23	23	23
Tanzania						
Subscribers (m)	5.2	5.9	6.7	7.9	9.1	10.1
Market share (%)	33.9	28	28	28	28	28
Uganda						
Subscribers (m)	1.8	1.8	2.5	3.4	4.3	5
Market share (%)	12.9	12.1	14	16	18	19
Zambia						
Subscribers (m)	3.2	3.1	3.7	4.3	5	5.5
Market share (%)	72.2	65	68	66	66	66
Rwanda						
Subscribers (m)	0	0	0	0.3	0.6	1
Market share (%)	0	0	0	5	10	15
Total						
Total subscribers (m)	**42.8**	**44.2**	**55.7**	**71.6**	**87.5**	**100.5**
Market share (%)	**23.4**	**20.7**	**23.4**	**25.8**	**27.7**	**28.6**

Source: Telecom Regulatory Authorities of respective countries, Antique

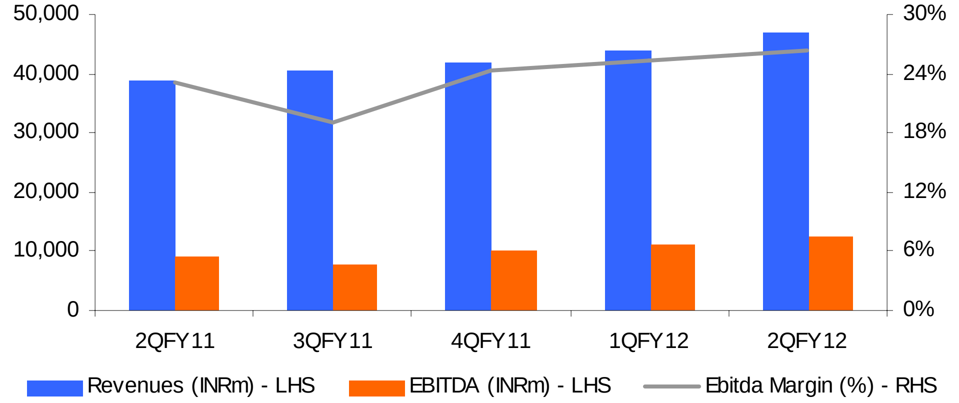
Steadily improving margins

Exhibit 15: Africa consolidated (Incl.Holdco)

	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12
Revenues	38,906	40,530	41,815	43,784	47,042
EBITDA	8,989	7,724	10,157	11,053	12,403
EBITDA margin (%)	23.1	19.1	24.3	25.2	26.4

Source: Company

Exhibit 16: Africa - Revenue, EBIDTA and Margins

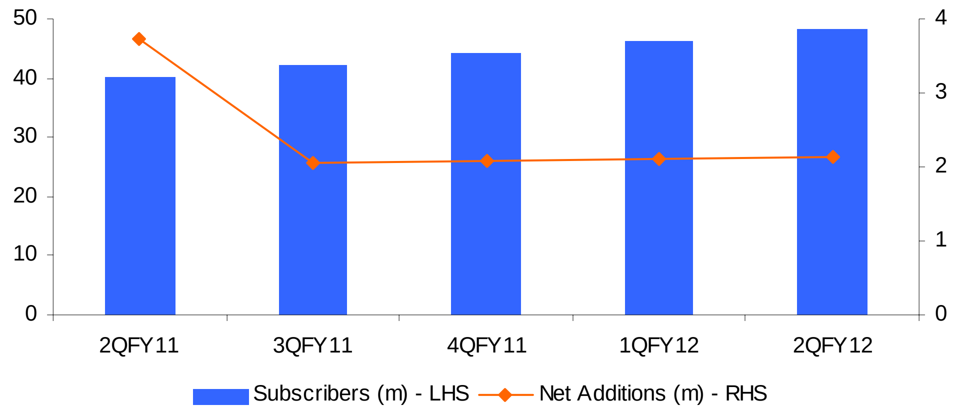


Source: Company

Africa net additions at a steady pace vs. a decline in Indian net adds

Net addition growth stabilising with increase in penetration level

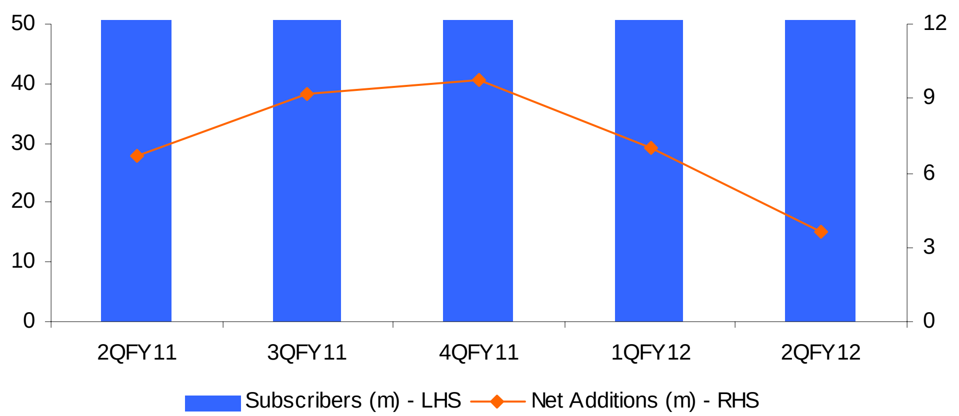
Exhibit 17: Africa - Subscribers vs. net additions



Source: Company

India subscriber addition falling at a sharp rate

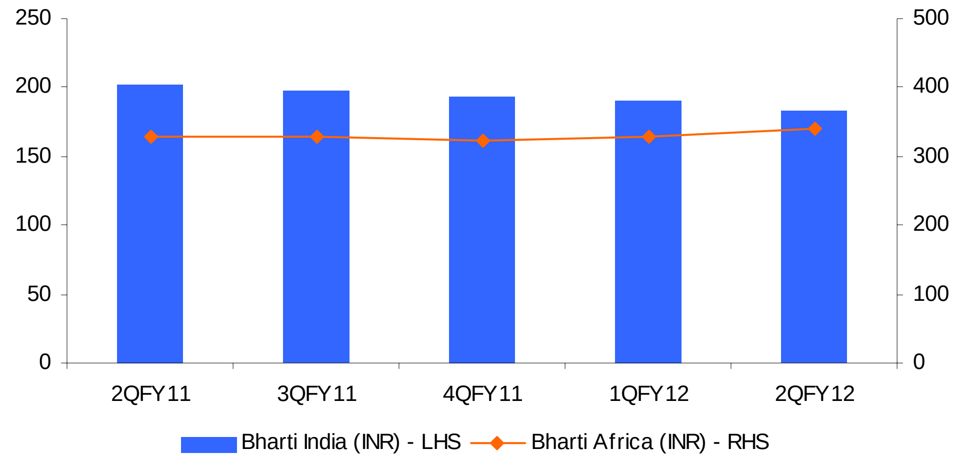
Exhibit 18: India - Subscribers vs. net additions



Source: Company

Fall in Indian ARPUs due to increase in rural penetration

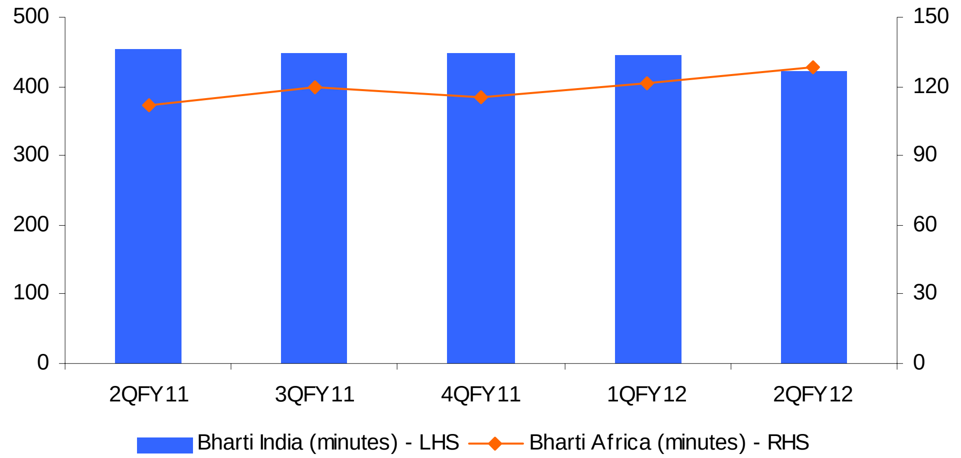
Exhibit 19: ARPU - India vs. Africa



Source: Company

Africa MOU increasing vs steep decline in India MOUs

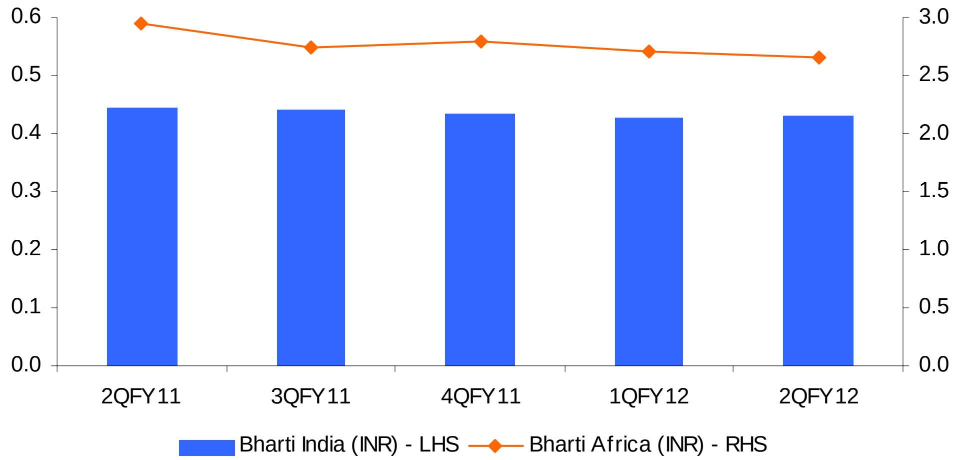
Exhibit 20: MOU - India vs. Africa



Source: Company

India ARPM increase post tariff hike

Exhibit 21: ARPM - India vs. Africa



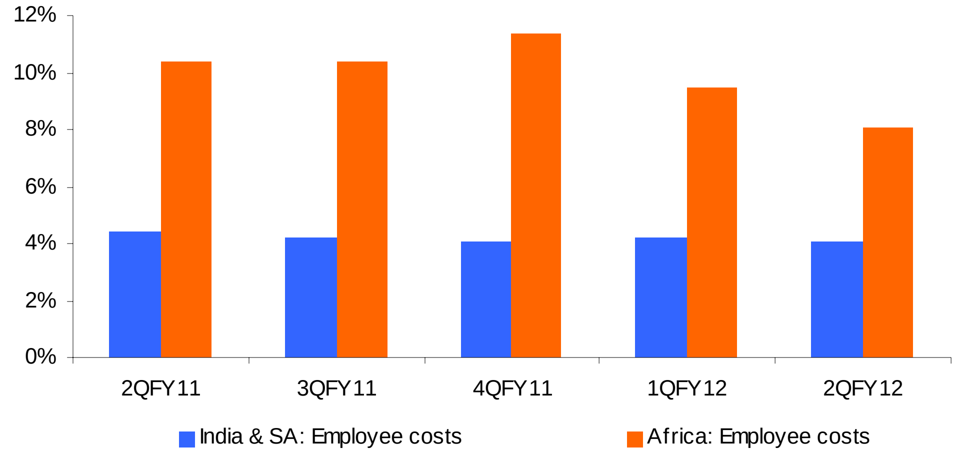
Source: Company

Cost structure: Africa leaves scope for improvement

Bharti has been able to manage and control a major part of the total operating expense except for the employee costs and SGA expense which are high due to its aggressive marketing spends to acquire a major chunk of incremental market share. Even it has been able to reduce both employee cost and SGA consistently in last few quarters as shown below:

Africa employee costs rationalising

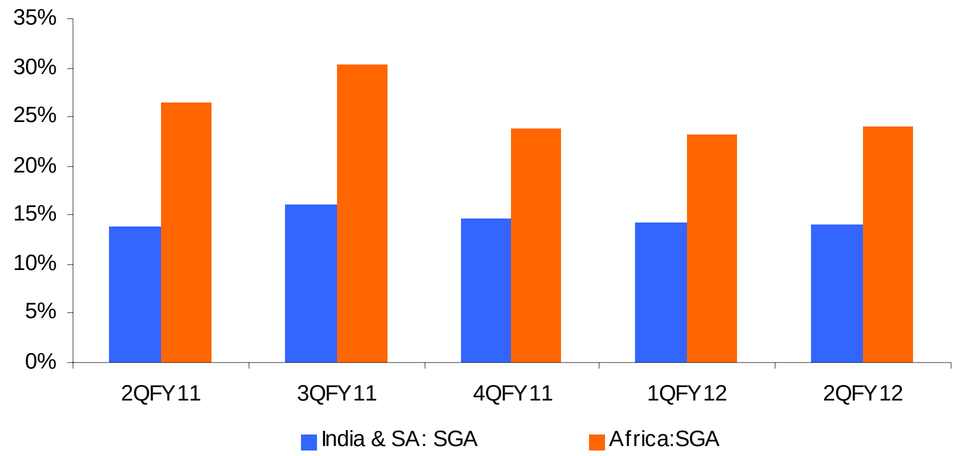
Exhibit 22: Bharti - Employee cost



Source: Company

Africa SGA expense stabilising

Exhibit 23: Bharti - SGA expense



Source: Company

Although Bharti management expects revenue and EBIDTA of USD5bn and USD2bn by FY13e, which implies an EBIDTA margin of ~40%, we are building in a slightly conservative EBIDTA margin of 32% implying an EBIDTA of USD1.62bn for FY13e. Our conservative margin estimates are based on the fact that Bharti is still entering new geographies and it will have to incur higher SGA and other operating expenses for few more quarters although the expense will come down from current high levels but the fall in our view will not be as sharp as the company expects.

Forecasting decline in ARPUs with increase in penetration

Exhibit 24: Bharti Africa - Conservative estimates

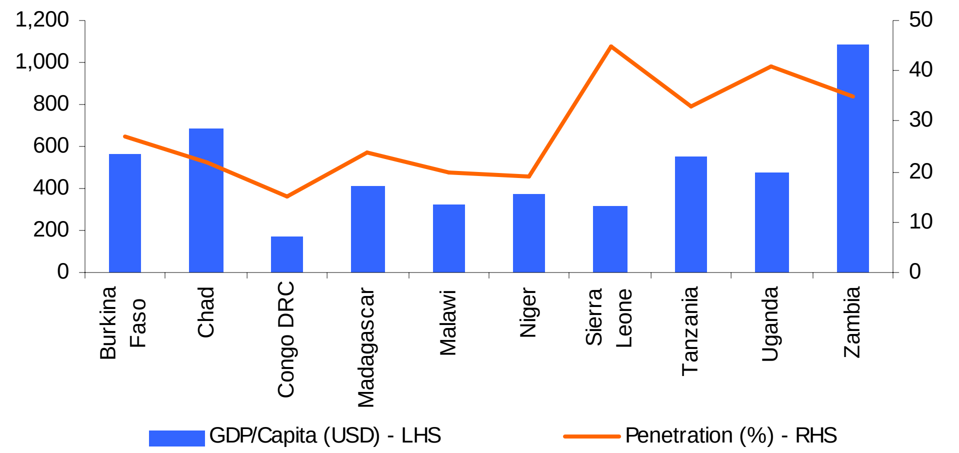
(in USDm)	FY11	FY12e	FY13e	FY14e	FY15e
Revenues	2,934	4,199	5,060	5,806	6,827
EBIDTA	805	1,142	1,626	2,036	2,530
EBIDTA margin (%)	27.45	27.19	32.14	35.07	37.06
PAT	(342.9)	(59.5)	212.8	462.4	900.9
PAT margin (%)	nm	nm	4.21	7.96	13.20
Subscribers (m)	44.2	55.7	71.6	87.5	100.5
Wireless penetration (%)	43	47	53	59	64
Zain market share (%)	21	23	26	28	29
ARPU	5.6	7.0	6.6	6.1	6.1

Source: Company, Antique

Our conservative estimates on Africa are primarily based on the fact that the lower penetration countries in the region have the lowest GDP and also very high level of corruption, low literacy rates and very high dependency ratio as shown in the Exhibits below:

Countries with low GDP have low penetration levels

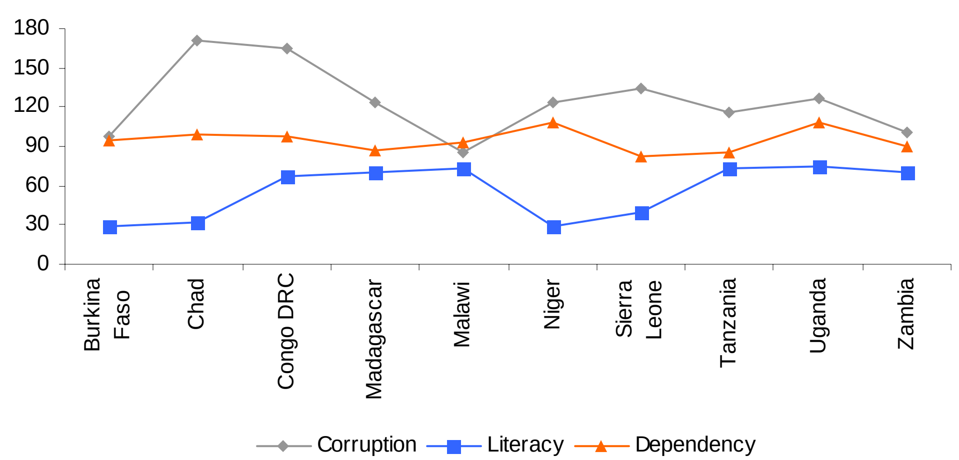
Exhibit 25: Africa - GDP vs. penetration



Source: World Bank, Antique

Countries with low penetration level have high corruption, low literacy rate and high dependency ratio

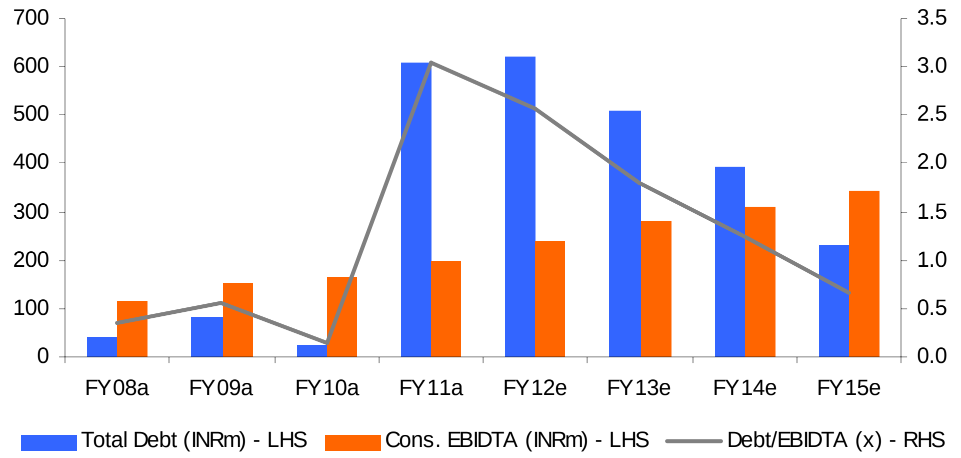
Exhibit 26: Africa - Corruption, literacy and dependency ratio



Source: World Bank, Antique

Net debt/EBIDTA to fall from 3x to 0.7x by FY15e

Exhibit 27: Bharti - Net debt/EBITDA



Source: Company, Antique

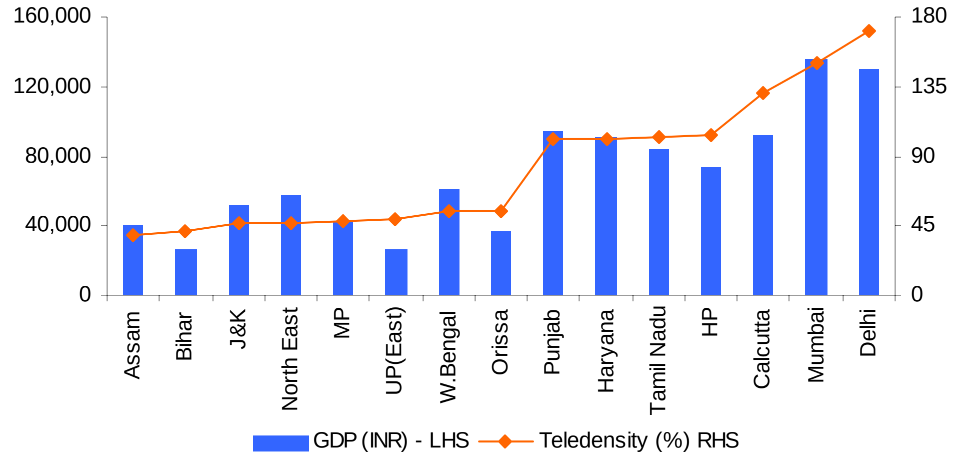
Immediate tariff hikes & ARPU growth difficult

Although telecom sector has a scope for tariff hikes, Indian household's limited pocket to spend and fierce competition act as a bottleneck in near term. We believe that while 3G will enable ARPUs to grow on an incremental basis, the net ARPU growth will be negatively impacted due to incremental additions coming in from low GDP regions coupled with a fierce competition from new player. We believe that the current high interest rate scenario is weighing heavy on highly leveraged balance sheets with no significant free cash flows of the new players. This coupled with govt. in action and lack of regulatory clarity is silently breaking the backbone of the new players which can be positive for incumbents in long-term.

Bharti India - ARPU and MOU to fall with increase in rural penetration

States with low GDP has low teledensity and vice-versa

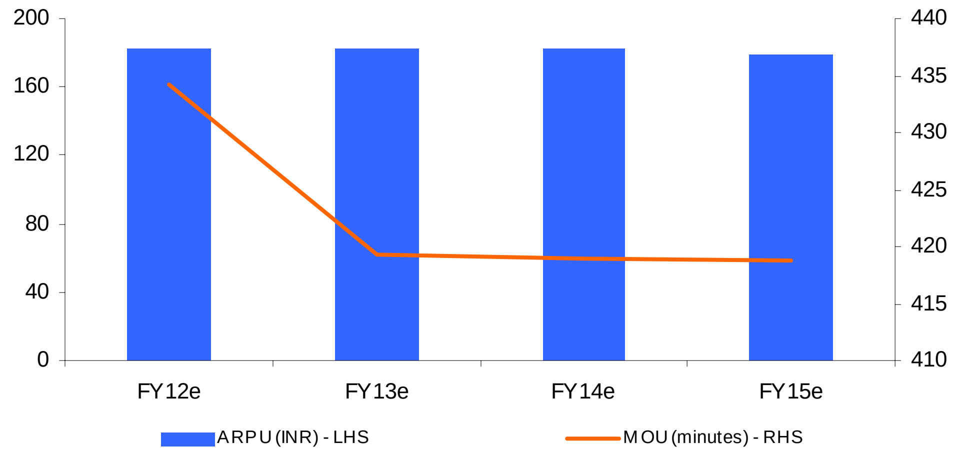
Exhibit 28: State GDP vs. teledensity



Source: Census Data, TRAI, Antique

We expect Africa ARPU and MOU to fall with increase in penetration levels

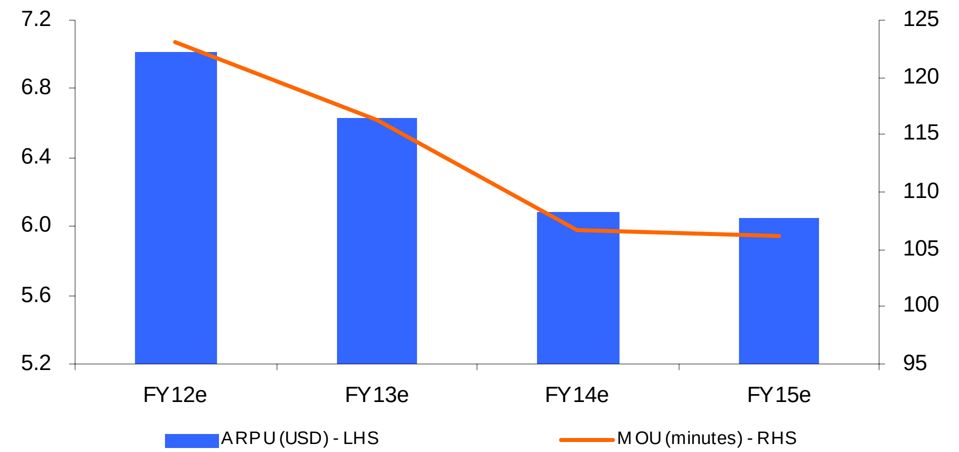
Exhibit 29: India - ARPU vs. MOU



Source: Company, Antique

Bharti Africa - ARPU and MOU to fall with increase in penetration

Exhibit 30: Africa - ARPU vs. MOU



Source: Company, Antique

3G - not a game changer yet but urban demand can be a surprise

Although currently there is a very limited demand for 3G services (due to low telecom spend and low national per capita income), but we believe that there is a reasonable scope of subscriber adds in 3G services in the urban areas going forward though at a reasonably lower incremental ARPU. Bharti acquired 13 circles in 3G and 4 circles in BWA spectrum license for a total consideration of USD3.3bn in FY11. We are building in an incremental revenue of INR4.1bn and INR8.3bn for FY12e and FY13e for 3G services which in our view are dilutive to margins due to high finance costs and high amortisation impact.

Exhibit 31: Bharti Airtel Impact

	2011	2012e	2013e	2014e	2015e
Total 3G subs (m)	1.5	4.2	7.4	13.8	24.0
3G ARPU (INR)	131	98	92	77	69
3G Revenue	324	4,123	8,251	12,522	18,981
3G Ebitda	(284)	(542)	(463)	267	2,477
3G PAT impact	(3,171)	(13,132)	(15,633)	(15,931)	(15,144)

Source: Antique

Exhibit 32: 3G + BWA footprint

	Bharti	VOD	RCOM	Idea	TTSL	Aircel	S Tel	Infotel	Qualcomm	Tikona	Augere
Kolkata	BWA	3G	3G			3G		BWA			
Delhi	3G	3G	3G					BWA	BWA		
Mumbai	3G	3G	3G					BWA	BWA		
AP	3G			3G		3G+BWA		BWA			
Gujarat		3G		3G	3G			BWA		BWA	
Karnataka	3G+BWA				3G	3G		BWA			
Maharashtra	BWA	3G		3G	3G			BWA			
Tamil Nadu (incl. Chn)	3G	3G				3G+BWA		BWA			
Haryana		3G		3G	3G			BWA	BWA		
Kerala				3G	3G	3G		BWA	BWA		
MP			3G	3G	3G			BWA			BWA
Punjab	BWA		3G	3G	3G	3G		BWA			
Rajasthan	3G		3G		3G			BWA		BWA	
UP (E)		3G		3G		3G		BWA		BWA	
UP (W)	3G			3G	3G			BWA		BWA	
West Bengal	3G	3G	3G			3G+BWA		BWA			
Assam	3G		3G			3G+BWA		BWA			
Bihar	3G		3G			3G+BWA	3G	BWA			
HP	3G		3G	3G			3G	BWA		BWA	
North East	3G		3G			3G+BWA		BWA			
Orissa			3G			3G+BWA	3G	BWA			
J&K	3G		3G	3G		3G+BWA		BWA			
Circle count	**16**	**9**	**13**	**11**	**9**	**13**	**3**	**22**	**4**	**5**	**1**

Source: TRAI, DoT, Company, Antique

Exhibit 33: 3G auction: Circle-wise/operator-wise outcome

INRm	Wining bid	Bharti	Vodafone	RCOM	Idea	TTSL	Aircel	S Tel	Total
Metros	**71,083**	**65,640**	**71,083**	**71,083**	**0**	**0**	**5,443**	**0**	**213,248**
Kolkata	5,443		5,443	5,443			5,443		16,328
Delhi	33,169	33,169	33,169	33,169					99,508
Mumbai	32,471	32,471	32,471	32,471					97,412
'A' service areas	**67,519**	**44,180**	**37,988**	**0**	**37,070**	**39,138**	**44,180**	**0**	**202,556**
AP	13,731	13,731			13,731		13,731		41,194
Gujarat	10,761		10,761		10,761	10,761			32,282
Karnataka	15,799	15,799				15,799	15,799		47,397
Maharashtra	12,578		12,578		12,578	12,578			37,735
Tamil Nadu (incl. Chn)	14,649	14,649	14,649				14,649		43,948
'B' service areas	**24,387**	**9,587**	**7,108**	**10,250**	**19,940**	**19,505**	**11,227**	**0**	**77,617**
Haryana	2,226		2,226		2,226	2,226			6,677
Kerala	3,125				3,125	3,125	3,125		9,374
MP	2,584			2,584	2,584	2,584			7,751
Punjab	3,220			3,220	3,220	3,220	3,220		12,880
Rajasthan	3,210	3,210		3,210		3,210			9,631
UP (E)	3,646		3,646		3,646		3,646		10,937
UP (W)	5,140	5,140			5,140	5,140			15,421
West Bengal	1,236	1,236	1,236	1,236			1,236		4,945
'C' service areas	**4,518**	**3,548**	**0**	**4,518**	**675**	**0**	**4,145**	**3,377**	**16,262**
Assam	415	415		415			415		1,244
Bihar	2,035	2,035		2,035			2,035	2,035	8,138
HP	372	372		372	372			372	1,489
North East	423	423		423			423		1,269
Orissa	970			970			970	970	2,909
J&K	303	303		303	303		303		1,212
Total (Rsm)	**167,506**	**122,955**	**116,179**	**85,850**	**57,686**	**58,643**	**64,995**	**3,377**	**509,684**
Total (USDm)	**3,577**	**2,626**	**2,481**	**1,833**	**1,232**	**1,252**	**1,388**	**72**	**10,885**

Source: TRAI, DoT, Company, Antique

High capex, recurring capex and 2G scam remains areas of concern

Bharti might have to incur USD3-3.5bn for license renewal and spectrum charges

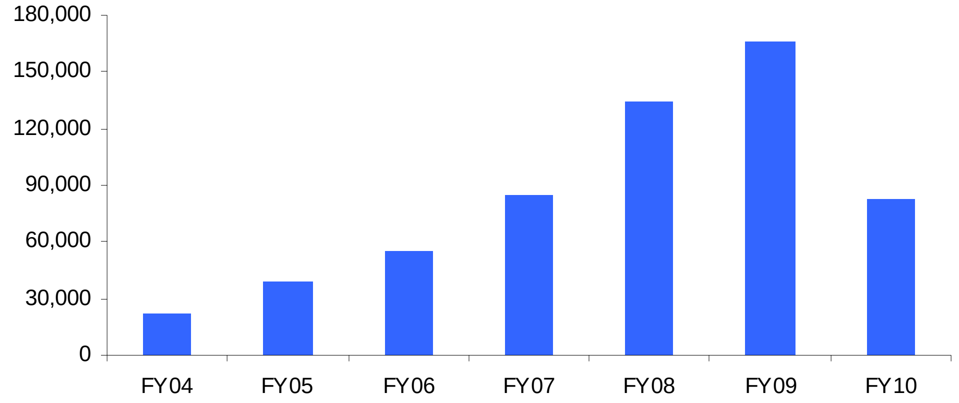
Telecom being a capital intensive business requires recurring capital expenditure every 4-5 years. Currently, telecom companies have incurred a huge capex on 3G/BWA spectrum license and might have to incur further capex for gaining access to 3G license on a Pan India basis after DoT notice to the companies on roaming agreement for providing 3G services between operators. The impact also comes from capex for "excess spectrum" and then for renewal of licenses which will be due for renewal starting Nov 2014. Bharti Airtel might have to incur USD3-3.5bn for all the above expenses taken together.

Exhibit 34: Potential payment for excess spectrum

Metros	TRAI proposed proposed rates	900MHz	1800MHz	Total	Excess Spectrum	Annual Charge	Renewal date	Effective Date	Residual life	Payment for excess spectrum
Kolkata	2,380	6.2	1.8	8.0	1.8	43	Nov-14	1-Apr-10	4.7	200
Delhi	12,487	8.0	2.0	10.0	3.8	474	Nov-14	1-Apr-10	4.7	2,214
Mumbai	7,867	0.0	9.2	9.2	3.0	236	Sep-21	1-Apr-10	11.5	2,714
AP	21,598	7.8	2.2	10.0	3.8	821	Dec-15	1-Apr-10	5.7	4,679
Gujarat	17,769	0.0	6.2	6.2	0.0	-	Sep-21	1-Apr-10	11.5	
Karnataka	17,296	7.8	2.2	10.0	3.8	657	Feb-16	1-Apr-10	5.9	3,864
Maharashtra	18,724	0.0	8.2	8.2	2.0	374	Sep-21	1-Apr-10	11.5	4,307
TN (incl. Chn)	21,303	6.2	3.0	9.2	3.0	639	Sep-21	1-Apr-10	11.5	7,350
Haryana	5,395	0.0	6.2	6.2	0.0	-	Sep-21	1-Apr-10	11.5	-
Kerala	11,608	0.0	6.2	6.2	0.0	-	Sep-21	1-Apr-10	11.5	-
MP	12,723	0.0	8.0	8.0	1.8	229	Sep-21	1-Apr-10	11.5	2,634
Punjab	9,028	7.8	0.0	7.8	1.6	144	Dec-15	1-Apr-10	5.7	824
Rajasthan	13,942	6.2	2.0	8.2	2.0	279	Apr-16	1-Apr-10	6.1	1,691
UP (E)	15,938	6.2	1.0	7.2	1.0	159	Feb-24	1-Apr-10	13.9	2,211
UP (W)	12,628	6.2	0.0	6.2	0.0	-	Sep-21	1-Apr-10	11.5	-
West Bengal	10,848	4.4	1.8	6.2	0.0	-	Feb-24	1-Apr-10	13.9	-
Assam	1,567	1.8	4.4	6.2	0.0	-	Jul-24	1-Apr-10	14.3	-
Bihar	7,685	6.2	3.0	9.2	3.0	231	Feb-24	1-Apr-10	13.9	3,198
HP	1,406	6.2	0.0	6.2	0.0	-	Dec-15	1-Apr-10	5.7	-
North East	1,598	4.4	1.8	6.2	0.0	-	Dec-15	1-Apr-10	5.7	-
Orissa	3,663	6.2	1.8	8.0	1.8	66	Feb-24	1-Apr-10	13.9	915
J&K	1,145	6.2	0.0	6.2	0.0	-	Feb-24	1-Apr-10	13.9	-
Total/Average	**228,593**	**97.8**	**71.0**	**168.8**	**32.4**	**4,353**				**36,800**

[a] Pricing for 5MHz of 2G spectrum valid for 20 years; [b] Based on residual life of excess spectrum subject to minimum 7 years; Source: TRAI, Antique

Exhibit 35: Bharti - Capex (fixed assets)



Source: Company

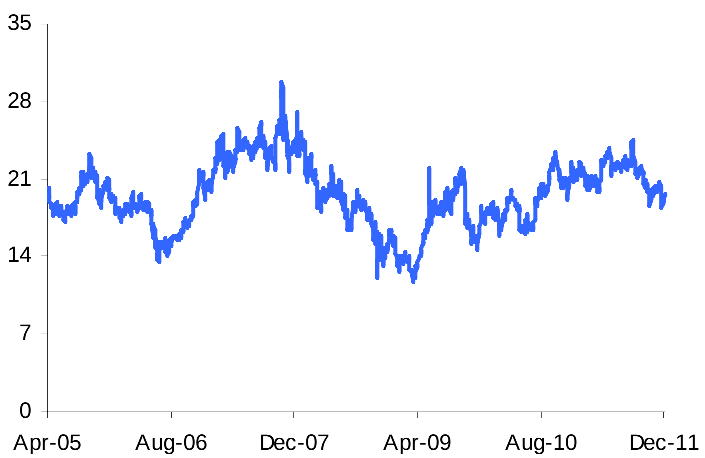
Exhibit 36: License renewal fee

Licenses	TRAI report Feb-11 Spectrum Fees/ MHz for 1800 MHz	Renewal date	Current spectrum (MHz)	Spectrum to be reassigned	Non-inflation Adjusted	Inflation adjusted @4%
Kolkata	495	Nov-14	8.0	8.0	3,958	4,754
Delhi	1498	Nov-14	10.0	10.0	14,978	17,988
Mumbai	1011	Sep-21	9.2	9.2	9,302	14,606
AP	1538	Dec-15	10.0	8.0	12,302	15,386
Gujarat	1499	Sep-21	6.2	6.2	9,292	14,590
Karnataka	1362	Feb-16	10.0	8.0	10,893	13,719
Maharashtra	1171	Sep-21	8.2	8.0	9,371	14,715
TN (incl. Chn)	1874	Sep-21	9.2	8.0	14,990	23,538
Haryana	145	Sep-21	6.2	6.2	899	1,412
Kerala	740	Sep-21	6.2	6.2	4,587	7,202
MP	877	Sep-21	8.0	8.0	7,017	11,018
Punjab	729	Dec-15	7.8	7.8	5,683	7,108
Rajasthan	1060	Apr-16	8.2	8.0	8,482	10,761
UP (E)	1518	Feb-24	7.2	7.2	10,927	18,828
UP (W)	601	Sep-21	6.2	6.2	3,727	5,852
West Bengal	448	Feb-24	6.2	6.2	2,777	4,785
Assam	104	Jul-24	6.2	6.2	645	1,129
Bihar	510	Feb-24	9.2	8.0	4,083	7,036
HP	93	Dec-15	6.2	6.2	579	724
North East	106	Dec-15	6.2	6.2	658	823
Orissa	243	Feb-24	8.0	8.0	1,946	3,354
J&K	76	Feb-24	6.2	6.2	471	812
Total	**17698**		**169**	**162**	**137,568**	**200,138**

Source: TRAI, DoT, Antique

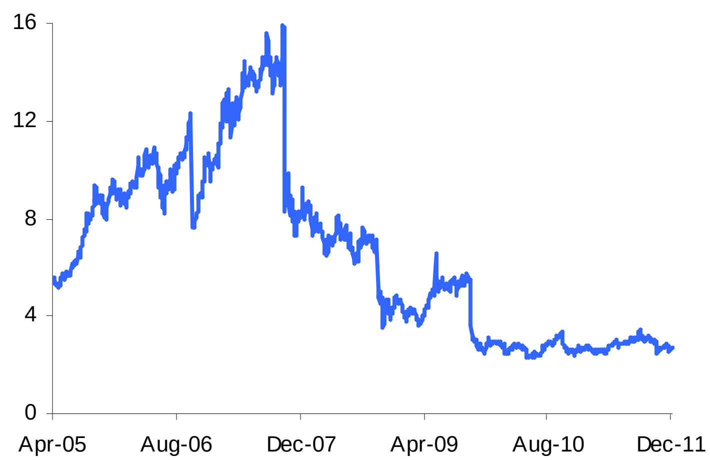
Bharti stock performance over last few years

Exhibit 37: Bharti Airtel - 1 Yr Fwd P/E



Source: TRAI, Antique

Exhibit 38: Bharti Airtel - 1 Yr Fwd P/BV



Source: TRAI, Antique

Valuation

What we are considering?

- **Turnaround in Africa:** We are building in a revenue growth of 18% and 11% for Bharti for FY12e and FY13e on the back of 43% and 21% revenue growth from Africa. Our confidence in Africa is primarily due to low penetration level and better brand standing over there.
- **EBIDTA margin improvement:** We are expecting EBIDTA margins to improve by 60bps and 180bps in FY12e and FY13e respectively on the back of operational improvement in Africa. We are building in an EBIDTA improvement from African operations aided by strong and proven execution capability of Bharti along-with its better service quality.

What we are not building in?

TRAI expects 120m smart phone users

- **3G not a game changer yet:** Although, we agree with the fact that there is huge demand for smart phones in India which can be taken as a dummy for demand for 3G services, few macro factors like low per capita income and high rural population forces us to believe that 3G probably will be significant story post FY15e. Hence, we are just building in an incremental revenue of INR4bn and INR8.3bn for FY12e and FY13e, respectively.
- **No substantial tariff hikes:** Inspite of the fact that the company has been able to increase tariff recently, we believe that higher tariffs will be detrimental to subscriber acquisition and will also reduce the usage thereby keeping ARPUs stable. Also, presence of multiple new vendors in each circle further reduces the chance of any aggressive tariff hikes.

DCF valuation

License renewal and excess spectrum charges to have an impact of INR36/sh

We believe that DCF is a preferred method for companies with visibility of consistent cash flows and growth. Our two stage DCF methodology gives us a fair value of INR415 for Bharti. If we adjust the PV (present value) of the potential outflow for license renewal due from Nov-14 for Bharti and the probable excess spectrum charges based on TRAI's recommendation for price and a moderate inflation rate of (4%), we arrive at an additional outflow of ~USD3bn which will have a posibble impact of ~INR36 on our DCF valuation. Taking into account the above, we arrive at a target price of INR379.

Alternate to DCF

Bharti, at the CMP of INR344, is trading at a PE of 15.6x our FY13e estimated EPS of INR22. The forward EV/EBIDTA for FY13E is 6.3x. Although we believe that there is a high probability of turnaround in African operations, the muted growth in subscribers, ARPU and profitability in India mellows down our optimism on the company. We value Bharti at INR398 or at a P/E multiple 18x on our FY13e EPS of INR22.

Taking into account lower of the above methodologies, we value Bharti at INR379 or 17x our FY13e EPS, implying a 10% upside from current levels. We recommend a HOLD on the stock.

Exhibit 39: DCF assumptions (Year ended 31 March)

Year end 31 Mar, Rsm	FY12e	FY13e	FY14e	FY15e	FY16e	FY17e	FY18e	FY19e	FY20e
Key assumptions (%)									
Revenue growth	9.9	7.5	4.6	3.0	3.9	2.9	2.3	2.3	2.2
EBITDA growth	**10.5**	**9.5**	**5.7**	**4.1**	**2.9**	**3.1**	**2.1**	**2.1**	**2.0**
FCF growth	NM	56.9	16.1	14.8	13.8	9.2	3.8	1.5	1.9
EBITDA margin	**37.1**	**37.7**	**38.1**	**38.5**	**38.1**	**38.2**	**38.1**	**38.0**	**38.0**
FCF margin	17.0	24.8	27.5	30.6	33.5	35.6	36.1	35.8	35.7
Capex / sales	**15.1**	**10.9**	**10.8**	**10.2**	**10.0**	**9.1**	**8.6**	**8.9**	**9.0**
Debt / capital	16.5	5.1	(4.1)	(3.7)	(3.4)	0.0	0.0	0.0	0.0
RoCE (ex-cash)	6.7	7.8	7.9	7.8	7.3	7.8	8.5	9.3	10.1
EBIT X (1-tax rate)	**78,792**	**100,762**	**116,781**	**139,589**	**154,241**	**179,022**	**192,312**	**203,547**	**214,274**
Depreciation & Amortization	132,197	140,326	146,116	146,814	151,687	145,729	142,185	138,156	137,116
Change in net working capital	31,953	7,891	4,684	4,927	7,485	4,867	1,167	606	(259)
Operating FCF	**242,943**	**248,980**	**267,582**	**291,330**	**313,412**	**329,618**	**335,663**	**342,309**	**351,130**
Capital expenditure	**(156,322)**	**(113,042)**	**(109,800)**	**(110,241)**	**(107,293)**	**(104,531)**	**(102,128)**	**(105,181)**	**(109,581)**
Free cash flow (FCFF)	**86,621**	**135,938**	**157,782**	**181,089**	**206,120**	**225,087**	**233,535**	**237,128**	**241,550**

Source: Antique

Exhibit 40: DCF for Airtel (ex Africa)

	Mar-12
Terminal growth rate (%)	2.50
WACC (%)	11.20
NPV of cash flows (2011e-2020e)	1,108,206
PV of terminal value	1,014,860
Enterprise Value (EV)	**2,123,066**
Terminal value as % of EV	48%
FY12e Effective net debt/(cash)	**547,548**
Equity value (INRm)	**1,575,518**
Equity value (USDm)	31,829
Number of shares (m)	3,798
Equity value (INR/share)	**415**

Source: Company, Antique

Exhibit 41: TP sensitivity to WACC and terminal growth rate

		WACC			
		10.6%	**11.2%**	**11.8%**	**12.6%**
Terminal Growth Rate	**2.5%**	455	**415**	379	338
	3.0%	475	431	392	349
	3.5%	497	450	407	361
	4.0%	523	471	424	374

Source: Antique

Key risks

- **Longer than expected time in turnaround of Africa operations:** We have based our Africa growth assumption on low penetration level prevailing over there. The company has achieved reasonable success in building its brand. However, if the process of implementing its tested (in India) low cost model in Africa takes a longer time, the turnaround target might prolong further.
- **Non-welcoming incidents pose a threat to valuation:** Incidences like recent strike in Bharti Nigeria's office over the dispute between the company and the workers for not renewing contracts of almost 4,000 employees of the telecom operator's call centres over there poses further risks to the operations.
- **Regulatory concerns:** Regulatory concerns still remain with respect to license fees for "excess license"; renewal of spectrum and DoT notice to telecom operators on illegality of roaming agreement for offering third generation (3G) mobile services. The first two can bring risks of regulatory payment worth USD3-3.5bn.

Financials

Profit and loss account (INRm)

Year ended 31st Mar	2009	2010	2011	2012e	2013e
Revenues	373,521	418,472	594,672	703,729	781,690
Expenses	(220,663)	(250,328)	(394,026)	(462,039)	(499,762)
EBITDA	**152,858**	**168,144**	**200,646**	**241,690**	**281,928**
Depreciation & amortisation	(49,639)	(62,835)	(102,066)	(132,197)	(140,326)
EBIT	**103,219**	**105,309**	**98,580**	**109,493**	**141,602**
Interest expense	(18,613)	(5,332)	(21,117)	(27,605)	(24,887)
Other income	1,304	5,111	(681)	(3,500)	1,000
Profit before tax	**85,910**	**105,088**	**76,782**	**78,388**	**117,715**
Taxes incl deferred taxation	(5,468)	(13,452)	(17,790)	(16,686)	(27,193)
Profit after tax	**80,442**	**91,636**	**58,992**	**61,702**	**90,522**
MI	(1,852)	(1,870)	1,475	(1,318)	(6,976)
Net profit	**78,590**	**89,767**	**60,467**	**60,384**	**83,546**
EPS	**20.70**	**23.64**	**15.92**	**15.90**	**22.00**

Balance sheet

Year ended 31st Mar	2009	2010	2011	2012e	2013e
Share Capital	20,391	18,988	18,720	18,720	18,720
Reserves & Surplus	270,888	402,952	468,948	524,903	604,021
Networth	**291,279**	**421,940**	**487,668**	**543,623**	**622,741**
Debt	135,171	101,898	616,708	621,942	510,142
Deferred tax liability	-	3,737	12,487	12,487	12,487
Minority interest	12,298	25,285	28,563	29,881	36,857
Other non current liabilities	-	11,149	34,163	34,163	34,163
Capital Employed	**438,748**	**564,009**	**1,179,589**	**1,242,096**	**1,216,390**
Gross Fixed Assets	577,991	670,156	1,163,682	1,325,004	1,473,123
Accumulated Depreciation	147,130	204,834	313,860	446,057	586,383
Net Assets	**430,861**	**465,322**	**849,822**	**878,947**	**886,740**
Capital work in progress	41,437	24,350	48,234	43,234	8,157
Goodwill	8,625	36,771	390,687	390,687	390,687
Other non current assets	294	35,878	64,244	69,761	76,812
Current Assets, Loans & Advances					
Inventory	963	484	2,139	2,237	2,299
Debtors & Prepayments	28,998	59,372	85,433	98,649	107,439
Cash & Bank balance	27,660	25,323	9,575	74,394	76,812
Derivative & Other current assets	1,552	10,849	14,930	14,930	14,930
Current Liabilities & Provisions					
Creditors	168,622	107,702	239,684	282,357	298,469
Other liabilities & provisions	17,043	39,229	45,791	48,385	49,017
Net Current Assets	**(65,958)**	**(50,903)**	**(173,398)**	**(140,532)**	**(146,005)**
Application of Funds	**438,748**	**564,009**	**1,179,589**	**1,242,096**	**1,216,390**

Per share data

Year ended 31st Mar	2009	2010	2011	2012e	2013e
No. of shares (m)	3,796	3,798	3,798	3,798	3,798
BVPS (INR)	76.7	111.1	128.4	143.1	164.0
CEPS (INR)	12.6	16.1	27.3	34.5	35.1
DPS (INR)	1.0	1.0	1.0	1.0	1.0

Margins (%)

Year ended 31st Mar	2009	2010	2011	2012e	2013e
EBITDA	40.9	40.2	33.7	34.3	36.1
EBIT	27.6	25.2	16.6	15.6	18.1
PAT	21.0	21.5	10.2	8.6	10.7

Source: Company, Antique

Cash Flow Statement

Year ended 31st Mar	2009	2010	2011	2012e	2013e
Net profits before tax	85,910	105,091	76,782	78,388	117,715
Depreciation & amortisation	48,745	62,832	102,066	132,197	140,326
Interest expense	361	11,191	3,754	-	-
(Inc)/Dec in working capital	(7,380)	12,227	9,577	31,953	7,891
Tax paid	(12,838)	(21,961)	(24,388)	(22,203)	(34,244)
Others	17,648	(15,410)	(1,438)	(1,000)	(1,000)
CF from operating activities	**132,446**	**153,970**	**166,353**	**219,335**	**230,688**
Capital expenditure	(165,716)	(124,314)	(277,094)	(156,322)	(113,042)
Inc/(Dec) in investments	12,599	(13,289)	(327,401)	-	-
Interest Income	1,363	2,038	565	1,000	1,000
CF from investing activities	**(151,754)**	**(135,565)**	**(603,930)**	**(155,322)**	**(112,042)**
Inc/(Dec) in share capital	325	117	(6,410)	-	-
Inc/(Dec) in debt	24,971	(1,173)	429,586	5,234	(111,800)
Dividends paid	22	(4,442)	(4,428)	(4,428)	(4,428)
CF from financing activities	**25,318**	**(5,498)**	**418,748**	**806**	**(116,228)**
Net cash flow	**6,010**	**12,560**	**(18,953)**	**64,819**	**2,418**
Opening balance	7,034	12,401	24,961	9,575	74,394
Closing balance	**13,045**	**24,961**	**6,008**	**74,394**	**76,812**

Growth Indicators (%)

Year ended 31st Mar	2009	2010	2011	2012e	2013e
Revenue	38.3	12.0	42.1	18.3	11.1
EBITDA	34.1	10.0	19.3	20.5	16.6
PAT	22.9	14.2	(32.6)	(0.1)	38.4
EPS	22.9	14.2	(32.6)	(0.1)	38.4

Valuation (x)

Year ended 31st Mar	2009	2010	2011	2012e	2013e
PE	16.6	14.6	21.6	21.6	15.6
P/BV	4.5	3.1	2.7	2.4	2.1
EV/EBITDA	9.3	8.4	9.7	7.8	6.3
EV/Sales	3.8	3.4	3.3	2.7	2.3
Dividend Yield (%)	0.3	0.3	0.3	0.3	0.3
EV/EBIT	13.8	13.4	19.7	17.2	12.5

Financial Ratios

Year ended 31st Mar	2009	2010	2011	2012e	2013e
RoE (%)	27	21	12	11	13
RoCE (%)	24	19	8	9	12
Debt/Equity (x)	0.5	0.2	1.3	1.1	0.8
EBIT/Interest (x)	5.5	19.7	4.7	4.0	5.7

Source: Company Antique

Reco	:	HOLD
CMP	:	INR83
Target Price	:	INR74
Potential Return	:	-10%

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RE-INITIATING COVERAGE

Idea Cellular Limited

Everything priced in

Investment rationale

Subscriber growth and usage to decline going forward

Idea Cellular Limited (Idea) added 12.3m subscribers in the last seven months and its market share has gone up from 11.1% to 11.6% at the end of Oct 2011. We believe the pace of adding subscribers will slow down in the coming months (had declined in Oct 11 by ~6% MoM) as penetration levels are as high as 72% in the Idea's 11 established circles (ex- Punjab and Karnataka). We also strongly believe that although there will be a small increase in ARPU due to growth in 3G services but the overall macro factor of low per capita income will put a cap on the usage/monthly spend by a subscriber/household, and will take away the benefits of recent tariff hikes resulting in lower MOU going forward.

Tariff hikes unlikely due to stiff competition

The 2G addition for Idea has started declining from its peak of monthly average of 2.14m in FY11 to 1.75m in FY12 YTD (Oct end). Also, stiff competition to gain market share had led new comers like Uninor to offer indispensable offers (recent 2paisa/minute) and the impact of the same was very much visible in subscriber addition in the month of Oct 2011 (Uninor' 2.7m vs. Idea' 1.6m).

Proposed abolition of roaming chgs, rising costs & loss making circles to drag margins

The recent NTP draft suggests abolition of domestic roaming charges which in our view had high EBITDA margins for the company. We also believe that the decline in subscriber growth, dismal 3G contribution recurring losses from new circles and high interest costs will continue to be a laggard on meaningful margin growth going forward.

Valuation and outlook

Idea, at the CMP of INR83, is trading at a P/E of 26x our FY13e EPS of INR3.2. Although, the company has added significant number of subscribers in the last few quarters and had also seen the highest addition from MNPs, but the low probability of increase in ARPUs coupled with consistent losses from new circles makes us cautious at current levels. We value Idea at a P/E multiple 24x on our FY13e EPS of INR3.2, implying a target price of INR74, or 10% downside from current levels. We recommend a HOLD on Idea.

Market data

Sector	:	Telecom
Market Cap (INRbn)	:	274
Market Cap (USDbn)	:	5.2
O/S Shares	:	3,307
Free Float (m)	:	1,040
52-wk HI/LO (INR)	:	104/52
Avg Daily Vol ('000)	:	5,568
Bloomberg	:	IDEA IN

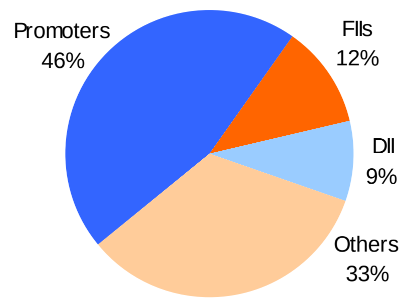
Source: Bloomberg

Returns (%)

	1m	3m	6m	12m
Absolute	(16)	(16)	6	23
Relative	(15)	(9)	19	57

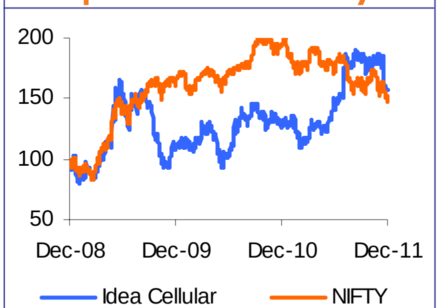
Source: Bloomberg

Shareholding pattern



Source: BSE

Price performance *vs* Nifty



Source: Bloomberg

Key financial

Year ended 31st March	2009	2010	2011	2012e	2013e
Net revenues (INRm)	101,544	124,471	155,032	187,039	214,333
EBITDA (INRm)	28,210	33,472	37,907	47,446	57,795
EBITDA growth (%)	24.3	18.6	13.3	25.2	21.8
PAT (INRm)	8,816	9,539	8,987	7,426	10,492
PAT growth (%)	(15.4)	8.2	(5.8)	(17.4)	41.3
EPS (INR)	2.8	2.9	2.7	2.2	3.2
P/E (x)	29.2	28.7	30.5	36.9	26.1
P/BV (x)	1.9	2.4	2.2	2.1	2.0
EV/EBITDA (x)	11.1	10.1	10.0	8.0	6.3

Source: Company, Antique

Company Profile

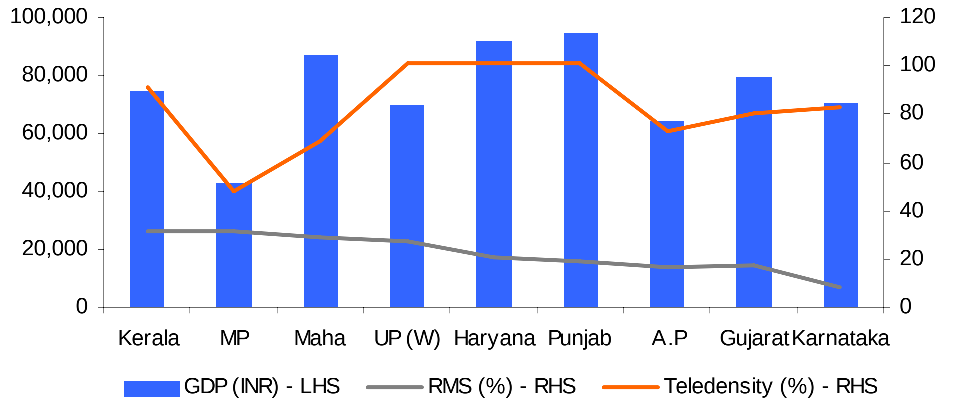
Idea Cellular Limited (Idea) is part of the Aditya Birla Group, a USD35bn corporation with businesses in sectors ranging from metals, garments, cement, fertilisers, life insurance and financial services. Over 60% of Group's revenues are derived from overseas operations (operating over 33 countries), and is backed by an extraordinary force of over 133,000 employees. The Aditya Birla Group currently holds ~46% stake in Idea.

Idea is the third largest wireless operator in India with a RMS of ~14% as on 1QFY12

Idea is the third largest wireless operator in India with a revenue market share (RMS) of 13.9% as of 1QFY12. It carries around 1.15bn minutes on a daily basis and is amongst the top 10 operators in the world, in terms of MOU (voice). The company is listed on NSE and BSE in India with a market capitalisation of INR326bn (as on Sep 30, 2011). It provides mobile services in all 22 service regions of India segregated as 13 established service areas (ESA) (evolved with time in terms of profitability) and 9 new service areas (NSA) (launched in FY09 and FY10) and gestating in terms of profitability. The company also won 3G spectrum in 11 major service areas which covers 76% of its existing revenue and accounts for half of national mobility revenue. Idea currently offers 3G services in 20 service areas (ex- Orissa and Punjab), through a combination of home network and roaming arrangements.

The established circles of Idea Cellular has high tele-density

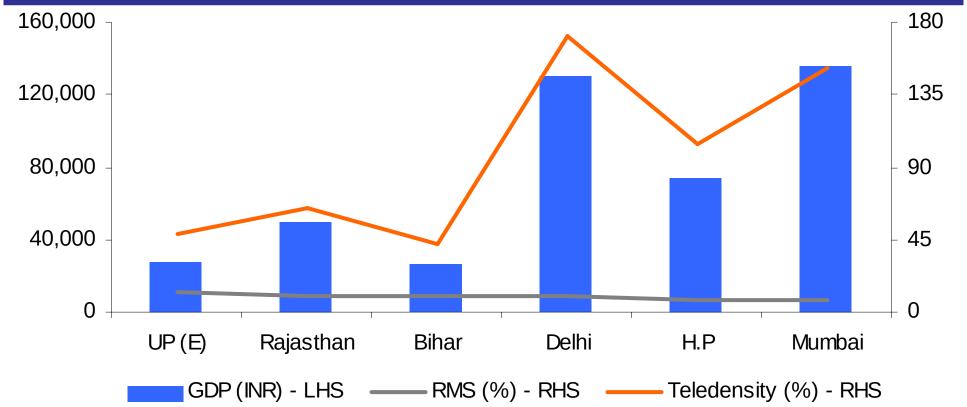
Exhibit 1: Established circles - GDP vs RMS (%) and teledensity



Source: Company, TRAI, Census, Antique

The emerging circles of Idea Cellular has either high teledensity or low GDP

Exhibit 2: Emerging circles - GDP vs RMS (%) and teledensity



Source: Company, TRAI, Census, Antique

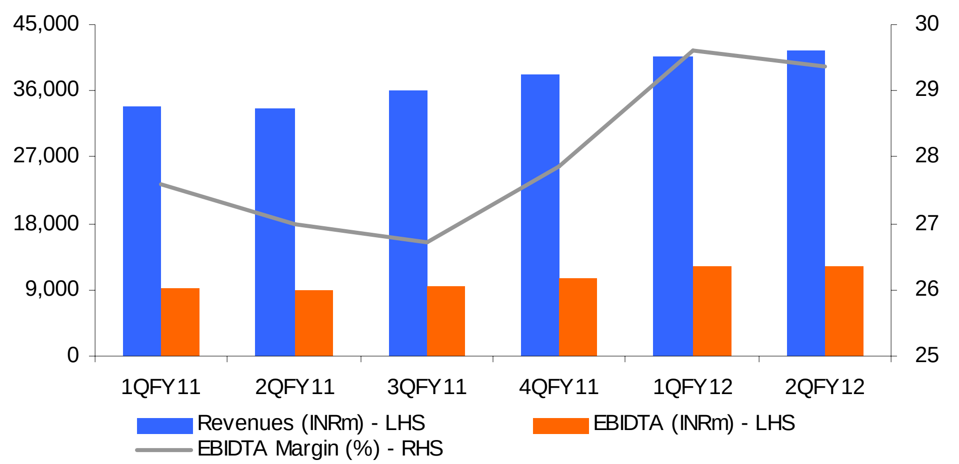
Business segments

Mobile services

Idea provides mobile services in all 22 service areas of India divided into ESA (13 service areas, based on profitability) and NSA (9 service areas, launched in FY09 and FY10), with a subscriber base of ~102m as on Oct 31, 2011. ESA contributes to over 89% of mobile revenues, while the rest comes from the NSA. It also holds licenses for NLD, ILD, ISP and IP-1 services, with Pan India coverage and ~ 20,000km of own built fibre cable transmission network and additional IRU arrangement with other telecom operators. The company also won 3G spectrum in 11 important service areas which covers 76% of Idea's revenue base as well as account for half of national mobility revenue, through market determined auction process. In March 2011, the company launched its 3G services to 9 out of these 11 service areas and had also entered into bilateral roaming arrangement for the service areas of Mumbai, Bihar, Karnataka, Delhi, Kolkata and Tamil Nadu (including Chennai), with leading quality operators, enabling it to offer 3G services in total 15 service areas.

ESA contributes to 89% of total revenue with ~30% EBIDTA margins

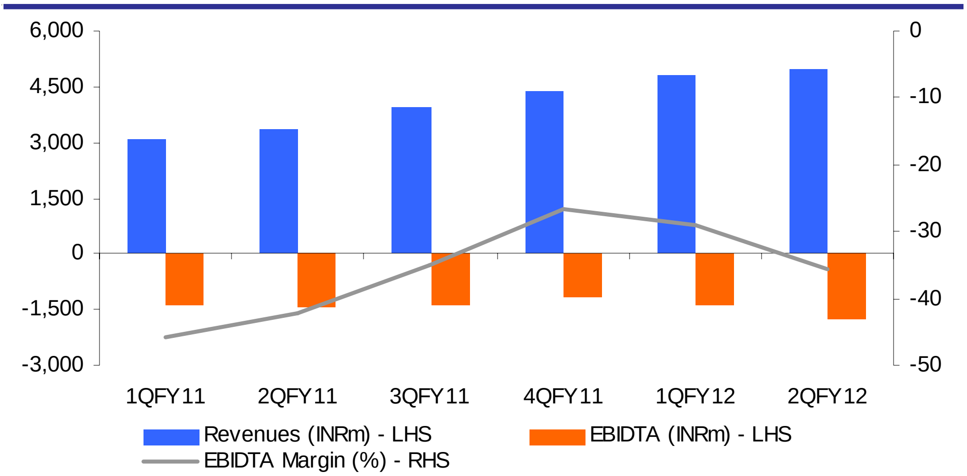
Exhibit 3: Established service areas



Source: Company, Antique

NSA contributes to 11% of total revenue with negative EBIDTA margins

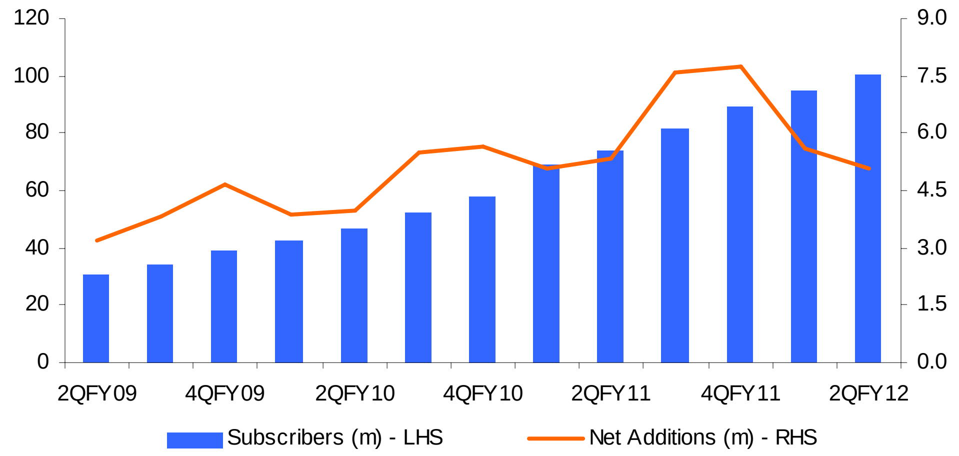
Exhibit 4: New service areas



Source: Company, Antique

Net additions falling due to high penetration levels and tough competition from new comers like Uninor

Exhibit 5: Subscribers vs. net addition

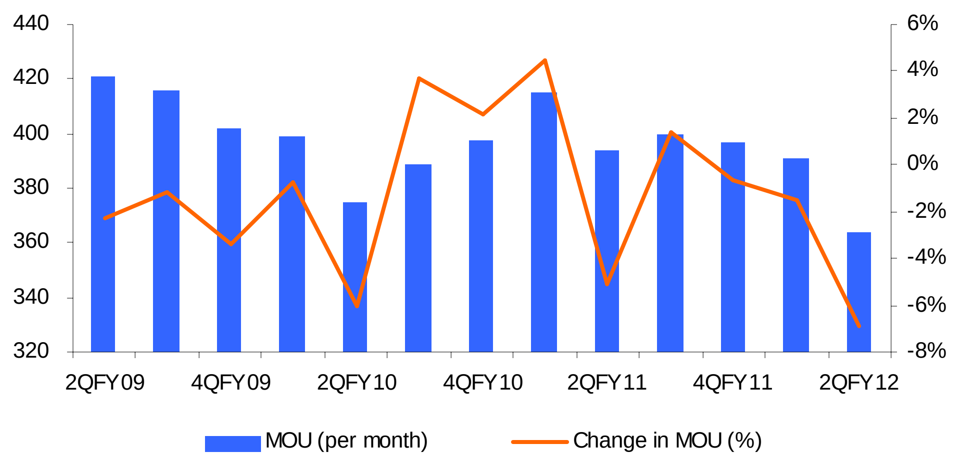


Source: Company, Antique

Idea revised its tariff plan upwards in July 2011, post which it witnessed a fall in not only ARPU levels (INR155 vs. INR160) but also MOU, from 391mins to 364mins from 1QFY12 to 2QFY12, while the total MOUs declined from 108bn minutes to 106bn minutes over the same period. We maintain our stance that low per capita rural income coupled with presence of more than eight operators in each circle limits the scope of tariff hikes.

MOU witnessed a decline post tariff hike

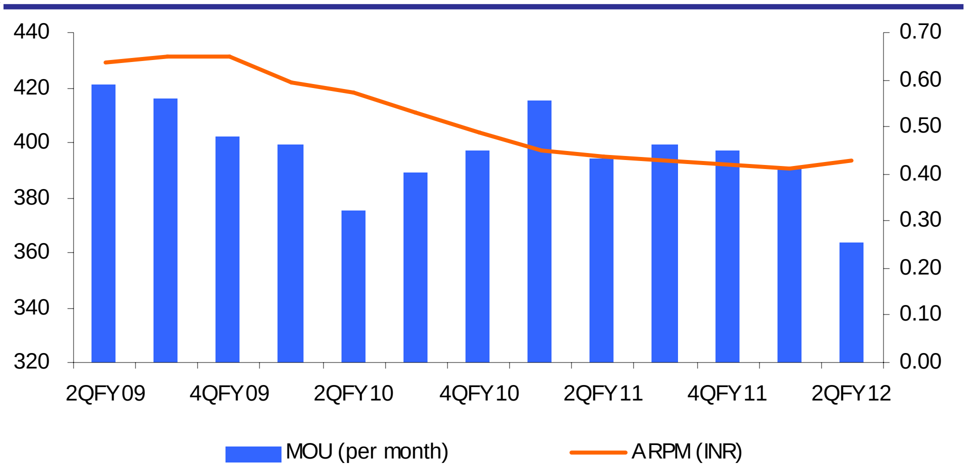
Exhibit 6: MOU (QoQ)



Source: Company, Antique

ARPM improved nominally post tariff hike in July 2011

Exhibit 7: MOU vs. ARPM



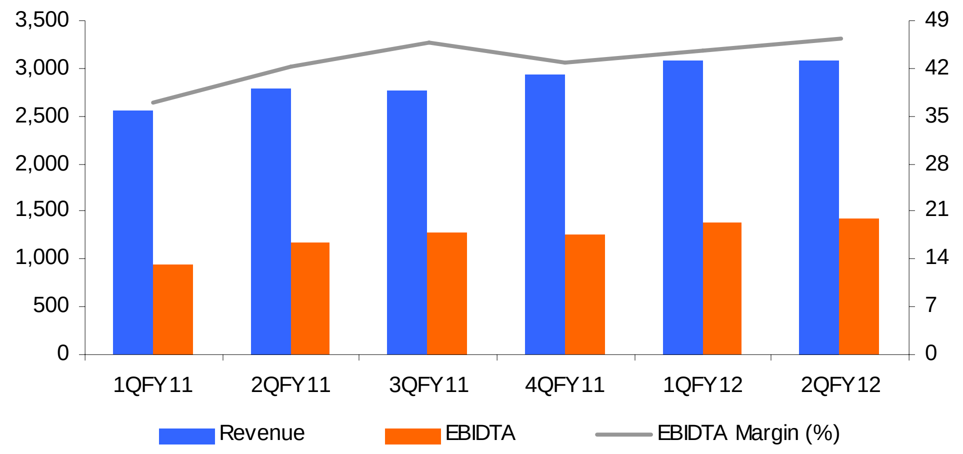
Source: Company, Antique

Telecom Infrastructure

Idea holds 16% stake in Indus Towers (a JV between Vodafone, Bharti and Idea).

Idea has a portfolio of ~78,367 2G cell sites as at the end of Sep11, of which 41,865 are rented to Indus Towers and 27,369 to others. It owns ~9,100towers with a tenancy of over 1.54x. The company has also installed ~9,700 3G cell sites as at the end of 2QFY12.

Exhibit 8: Revenue and EBITDA contribution of Indus Towers



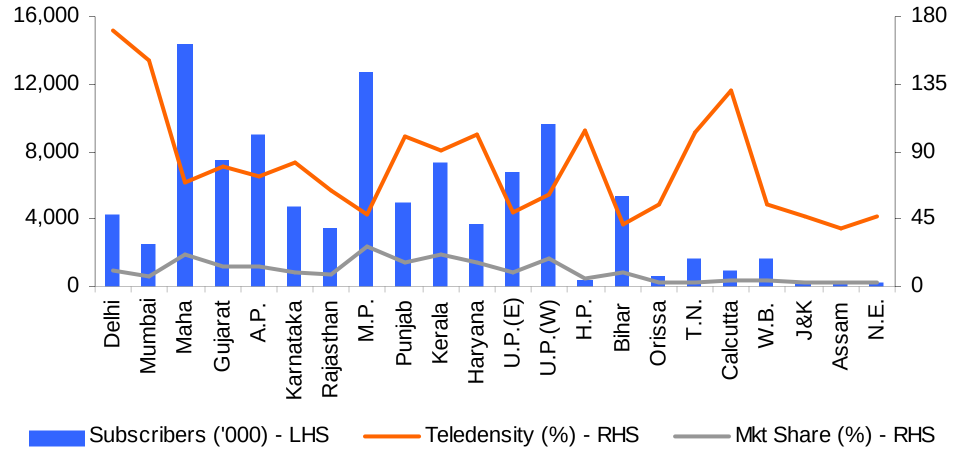
Source: Company, Antique

Investment rationale

Subscriber growth and usage to slow down

Idea Cellular Limited (Idea) added 12.3m subscribers in the last seven months and its market share has gone up from 11.1% to 11.6% at the end of Oct 2011. We believe the pace of adding subscribers will slow down in the coming months (had declined in Oct 11 by ~6% MoM) as penetration levels are as high as 72% in the Idea's 11 established circles (ex- Punjab And Karnataka). We strongly believe that although there will be a small increase in ARPU due to growth in 3G services but the overall macro factor of low per capita income will put a cap on the usage/monthly spend by a subscriber/household, and will take away the benefits of recent tariff hikes. We also believe that the incremental subscriber addition will further dilute the existing ARPUs from INR169 in FY11 to INR157 and INR159 in FY12e and FY13e respectively, due to limited paying capacity of the remaining households and high BPL population. Our higher ARPU estimates for FY13e include incremental contribution from 3G subscribers.

Exhibit 9: Subscriber vs. teledensity



Source: TRAI, Census, Company, Antique

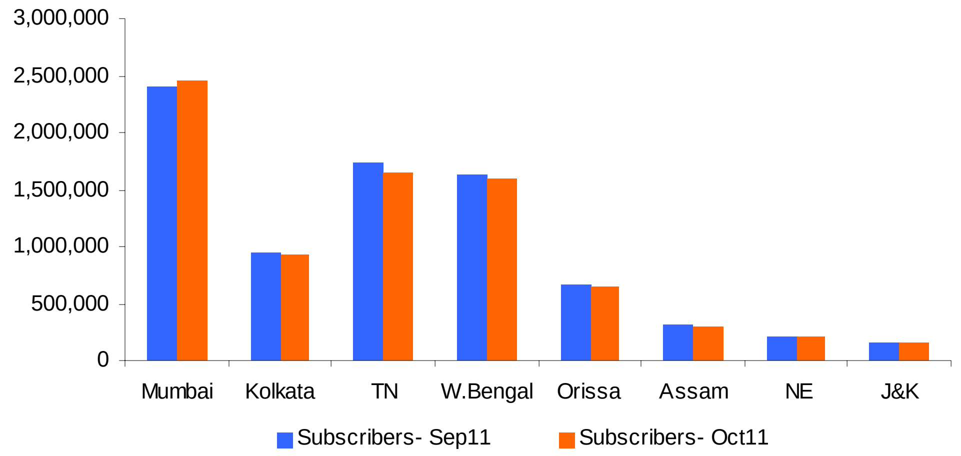
Exhibit 10: Subscribers vs. net addition for October 2011

Uninor added highest subscribers in September and October 2011

	Subs ('000)		Net adds		Chg MoM
	Sep-11	Oct-11	Sep-11	Oct-11	(%)
RCOM	147,887	148,888	1,820	1,001	(45)
Bharti	172,783	173,733	936	950	1
BSNL	91,073	91,585	450	512	14
VOD Essar	144,992	145,916	848	924	9
Idea	100,180	101,819	1,739	1,639	(6)
Aircel	59,795	60,284	603	489	(19)
TTSL	88,774	87,836	218	(938)	nm
Uninor	29,654	32,319	1,916	2,665	39
Others	34,728	35,351	377	622	65

Source: TRAI, AUSPI

Exhibit 11: Subscribers: Oct 2011 vs. Sept 2011



Source: TRAI, Company

Total subscribers have declined for Idea in most of the NSA thereby reflecting stiff competition to Indian market share

Tariff hikes unlikely due to stiff competition and TRAI's displeasure

Idea had moved from No.1 position in subscriber additions to No.2 position in last couple of months.... while Uninor is clearly leading the race

In the last few months, Idea has added highest number of subscribers among incumbents in the Indian telecom space on account of huge marketing and promotional activities incurred particularly in the rural area. However, new service providers with the urgency to gain market share have rolled out informidable offers (like recent 2paisa/minute offer by Uninor), on account of which there has been a sudden downward shift in Idea's position, i.e., from being the no. 1 subscriber gainer it became no 2. We believe that the present idle capacity along-with huge payments made for licenses and spectrum has pushed the new comers into a no return point and the only option left for them is to aggressively increase the subscriber addition.

Subscriber addition fell from an average of ~2.2m per month in 1HCY11 to ~1.7m per month in 3QCY11

The 2G addition for Idea has started declining from its peak of monthly average of 2.14m in FY11 to 1.75m in FY12 YTD (Oct end). As per the last reported subscriber numbers in Oct, the subscriber addition fell from an average of 2.2m per month in 1HCY11 to 1.68m per month in 3QCY11. Also, stiff competition to gain market share had led new comers like Uninor to offer indispensable offers (recent 2paisa/minute) and the impact of the same was very much visible in subscriber addition in the month of Oct 2011 (Uninor' 2.7m vs. Idea' 1.6m). Also, TRAI's displeasure over recent hikes also signals a high probability of intervention in case of unreasonable tariff hikes going forward.

We also believe that any increment in tariff hike will clearly impact MOUs which will subdued any positive impact of increase in ARPMs. On the operational front, we believe that although Idea has done a good turnaround and its aggressive subscriber addition has enabled it to absorb the incremental 3G capital expenditure pressure to a great extent, the upcoming excess spectrum charges along with dismal 3G subscriber additions will definitely impact its balance sheet and debt levels.

Increase in tariff rate to have an impact on usage and margins

Exhibit 12: Scenario analysis - Impact of tariff hike on EBITDA

	FY12e	FY13e
Current tariff (INR per min)	0.40	0.41
Average Subs	97	107
MOU	391	388
ARPU-based revenue (INRm)	182,372	204,314
EBITDA	40,153	48,795
EBITDA margin (%)	22.0	23.9
Total network minutes (bn)	453	497
EBITDA/min	0.09	0.10
Tariff hike (%)	5	5
MOU impact (%)	(10)	(10)
Revised ARPM (INR per min)	0.42	0.43
Revised MOU (mins per subs)	352	349
Revised revenue (INRm)	172,341	193,077
Revised EBITDA	37,944	46,112
EBITDA growth (%)	(5.5)	(5.5)

Source: Antique

Exhibit 13: Impact of tariff hike and MOU on EBITDA

	Tariff Hike (%)				
	5	10	12	15	20
0.0	5.0	10.0	12.0	15.0	20.0
-2.0	2.9	7.8	9.8	12.7	17.6
-5.0	-0.3	4.5	6.4	9.2	14.0
-10.0	-5.5	-1.0	0.8	3.5	8.0
-15.0	-10.8	-6.5	-4.8	-2.3	2.0

Source: Antique

Proposed abolition of roaming rates, rising costs and loss making new circles to drag margins

The recent NTP draft suggests abolition of domestic roaming charges which in our view had high EBITDA margins for the company. We have shown possible impact of cut in roaming tariffs on Idea's EBIDTA in Exhibit 15). We believe that the decline in subscriber growth, recurring losses from new circles and high interest costs will continue to be a laggard on meaningful margin growth for the company going forward.

The 9 service areas (all established) where Idea has a high RMS (revenue market share) of ~21% on an average are circles where teledensity has already crossed 90% and incremental growth will be slower.

Exhibit 14: Roaming charges on own network

	Airtel	Idea	Vodafone
Outgoing			
Local Calls	1	1	1
STD Calls	2	2	2
3G Video call		5p/sec	
Incoming			
Local Calls	1	1	1
STD Calls	1	1	1
3G Video call		2p/sec	
SMS			
Local Calls	2	2	2
National	2	2	2

Source: Company, Market Data, Antique

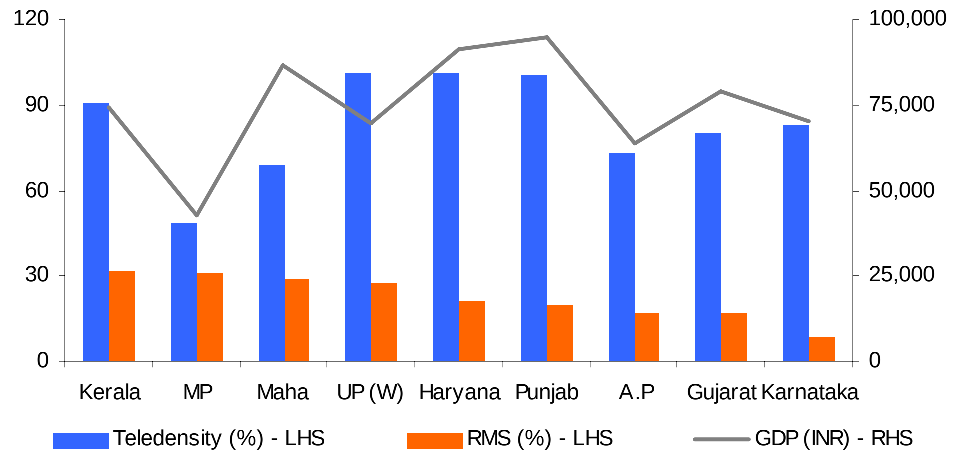
Exhibit 15: Impact of abolition of domestic roaming on FY13e PAT

	With no impact on MOU	MOU increases by 50%	MOU increases by 100%
ARPU (INR)	159	159	159
Estimated ARPU based Revenue for FY13e (INRm)	204,314	204,314	204,314
Roaming revenue (%)	6	6	6
Current roaming revenue (INRm)	12,259	12,259	12,259
Current roaming revenue (INR)	10	10	10
Roaming call rates (INR per min)	1.0	1.0	1.0
% increase in MOU		50.0	100.0
Outgoing minutes @50% (mins)	5	7	10
Incoming minutes @50% (mins)	5	7	10
Normal call rates (INR)	0.5	0.5	0.5
Revised revenue from roaming (INR per user)	2.4	3.6	4.8
Loss of revenue from roaming (INR per subs)	7.2	6.0	4.8
Impact of roaming charges abolition on revenue (%)	5	4	3
Revenue loss from roaming charges abolition (INRm)	9,194	7,662	6,129
Current EBITDA margin on roaming (%)	35	35	35
Current roaming EBITDA (INRm)	4,291	4,291	4,291
New roaming EBITDA (%)	35	35	35
New roaming EBITDA (INRm)	1,073	1,609	2,145
EBITDA loss (INRm)	3,218	2,682	2,145
Estimated EBITDA for FY13e	57,795	57,795	57,795
EBITDA impact (%)	6	5	4

Source: Company, Antique

9 circles with high RMS (%) has high teledensity

Exhibit 16: Circle-wise GDP, RMS and teledensity

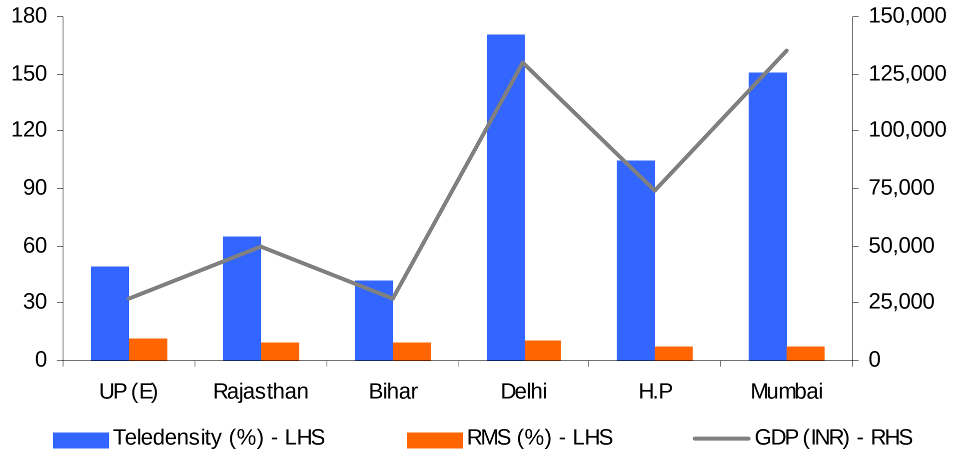


Source:TRAI, Census, Company, Antique

The six circles where Idea has a low RMS (~9%) on an average are circles with either very high teledensity or very low GDP growth. We believe this will limit Idea's significant growth.

We also believe that for Idea it will not be easy to gain revenue and market share in the NSAs primarily because of strong presence of the private sector players with equivalent service quality and comparable network capabilities.

Exhibit 17: Idea service areas with low RMS (%)

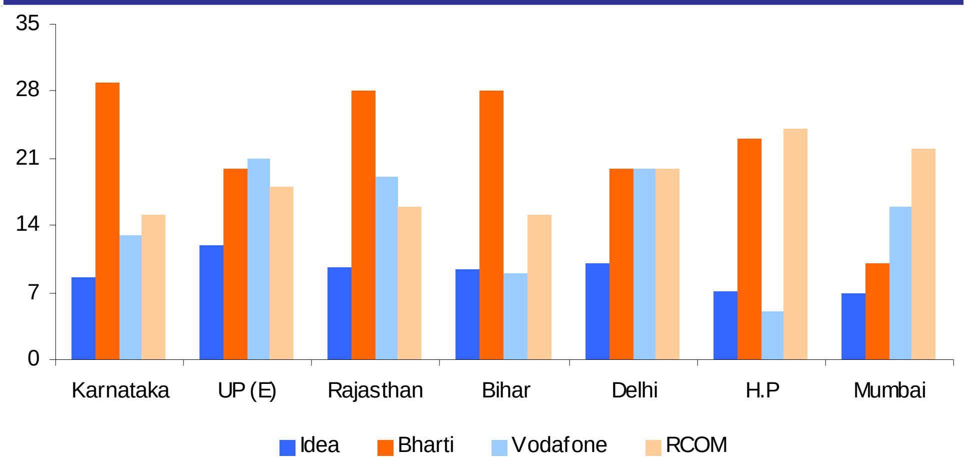


Source: TRAI, Company, Antique, Census

Also, Idea has been struggling hard to turnaround the loss making new circles since there launch in FY09-10. The new circles till now have only contributed to total addition of 13m, implying a circle average addition of 1.5m. The above dismal subscriber additions have not been able to absorb the operation costs which has resulted in the total network costs to go up from ~16% (4QFY08) to ~25% in 2QFY12e. Moreover, the new circles had been dragging the margins of the old circles significantly. If we take off the losses of the new circles, Idea is comparable to Bharti in terms of margins as shown in Exhibit 19.

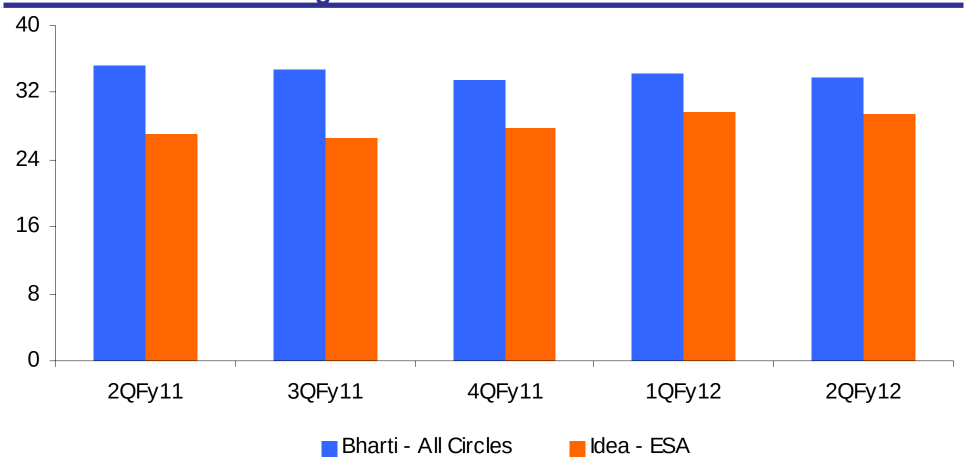
New service areas have high presence of other private service providers with comparable service quality

Exhibit 18: NSA - Market share gain difficult for Idea



Source:: TRAI, AUSPI, Company, Antique

Exhibit 19: ESA EBITDA margins: Bharti vs. Idea



Source: TRAI, AUSPI, Company, Antique

Also, proposed excess spectrum charges, renewal of 2G licenses will continue to drag margins significantly. We have done a detailed analysis of the same as shown in Exhibit 20.

Exhibit 20: Renewal fees

Licenses	TRAI report Feb-11 Spectrum Fees/MHz for 1800 MHz	Renewal date	Current spectrum (MHz)	Spectrum to be reassigned	Non-inflation Adjusted	Inflation adj @ 4%
Kolkata	495	Jan-28	4.4	4.4	2,177	4,382
Delhi	1,498	Oct-21	8.0	8.0	11,982	18,829
Mumbai	1,011	Dec-26	4.4	4.4	4,449	8,563
AP	1,538	Dec-15	8.0	8.0	12,302	15,397
Gujarat	1,499	Dec-15	6.2	6.2	9,292	11,630
Karnataka	1,362	Apr-16	6.2	6.2	8,442	10,694
Maharashtra	1,171	Dec-15	9.8	8.0	9,371	11,730
TN (incl. Chn)	1,874	Jan-28	4.4	4.4	8,245	16,593
Haryana	145	Dec-15	6.2	6.2	899	1,125
Kerala	740	Dec-15	8.0	8.0	5,918	7,402
MP	877	Dec-15	8.0	8.0	7,017	8,783
Punjab	729	Apr-16	7.8	7.8	5,683	7,199
Rajasthan	1,060	Oct-21	6.2	6.2	6,574	10,330
UP (E)	1,518	Oct-21	6.2	6.2	9,409	14,785
UP (W)	601	Dec-15	8.0	8.0	4,809	6,019
West Bengal	448	Jan-28	4.4	4.4	1,971	3,966
Assam	104	Jan-28	4.4	4.4	458	921
Bihar	510	Dec-26	4.4	4.4	2,246	4,323
HP	93	Oct-21	4.4	4.4	411	646
North East	106	Jan-28	4.4	4.4	467	940
Orissa	243	Jan-28	4.4	4.4	1,071	2,155
J&K	76	Jan-28	4.4	4.4	334	673
Total	**17,698**		**133**	**131**	**113,526**	**167,085**

Source: TRAI, DoT, Antique

We believe that in coming quarters, the network costs will further increase due to 3G roll outs which will warrant further tower addition and rise in operational, maintenance and capex costs.

Even if we discount the license fee outflow @11.9% discount rate we arrive at a PV of INR67bn for Idea.

Exhibit 21: Excess spectrum charges

Metros	TRAI proposed rates	Excess Spectrum	Annual Charge	Residual life	Payment for excess spectrum
Kolkata	2,380	0.0	-	17.8	-
Delhi	12,487	1.8	225	11.5	2,589
Mumbai	7,867	0.0	-	16.7	-
AP	21,598	1.8	389	5.7	2,224
Gujarat	17,769	0.0	-	5.7	-
Karnataka	17,296	0.0	-	6.0	-
Maharashtra	18,724	3.6	674	5.7	3,856
TN (incl. Chn)	21,303	0.0	-	17.8	-
Haryana	5,395	0.0	-	5.7	-
Kerala	11,608	1.8	209	5.7	1,191
MP	12,723	1.8	229	5.7	1,310
Punjab	9,028	1.6	144	6.0	871
Rajasthan	13,942	0.0	-	11.5	-
UP (E)	15,938	0.0	-	11.5	-
UP (W)	12,628	1.8	227	5.7	1,300
West Bengal	10,848	0.0	-	17.8	-
Assam	1,567	0.0	-	17.8	-
Bihar	7,685	0.0	-	16.7	-
HP	1,406	0.0	-	11.5	-
North East	1,598	0.0	-	17.8	-
Orissa	3,663	0.0	-	17.8	-
J&K	1,145	0.0	-	17.8	-
Total/Average	**228,593**	**14**	**2,097**		**13,341**

[a] Pricing for 5MHz of 2G spectrum valid for 20 years.
Source: TRAI, DoT, Antique

Limited 3G demand - high interest costs to be a laggard

We expect significant impact on PAT of all 3G players due to high depreciation ammortisation and finance cost

Idea, in spite of launching 3G services in 20 service areas in the last 6 months, had been hardly able to make a significant impact in its revenues. The company till date has been able to add a dismal 2.5m subscribers regardless of a 50-60% cut in tariff rates since launching of the services. This coupled with recent move to cut 3G tariffs clearly substantiates our view that the ability to pay for data remains limited. We anticipate that leading players may widen their VAS and Data offerings, thus adding incremental revenue streams and improving/compensating falling blended realisations. We are projecting a minimal 3G subscriber addition in our forecast due to non-clarity on 3G tariffs and its acceptance in the Indian market. In our view there will be significant impact on PAT of both Bharti and Idea due to high amortisation and finance costs on account of 3G (ref. below Exhibits).

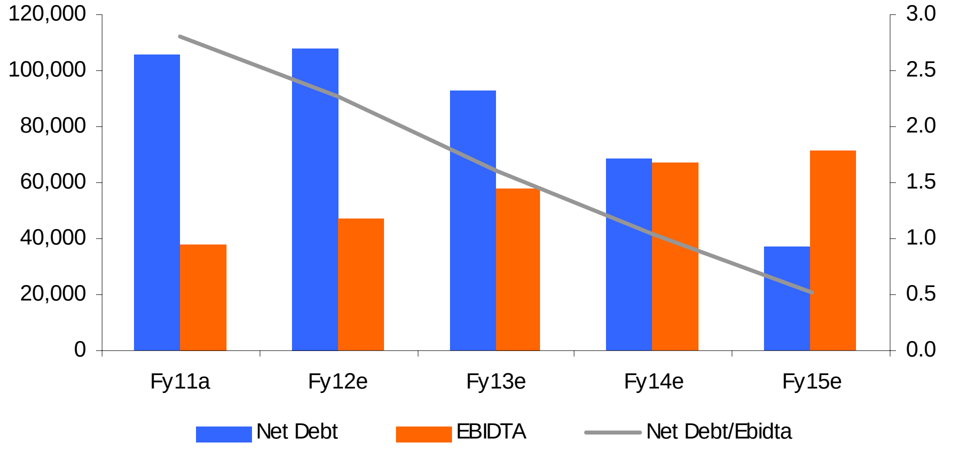
Exhibit 22: Idea 3G impact

	2011	2012e	2013e	2014e	2015e
Total 3G subs	0.9	4.9	10.1	18.9	26.3
Blended ARPU	87	100	94	78	72
Revenues	132	3,818	9,223	14,659	20,552
EBITDA	(136)	(680)	269	1,653	4,188
3G impact on PAT	(2,375)	(11,361)	(10,397)	(10,706)	(9,681)

Source: Company, Antique

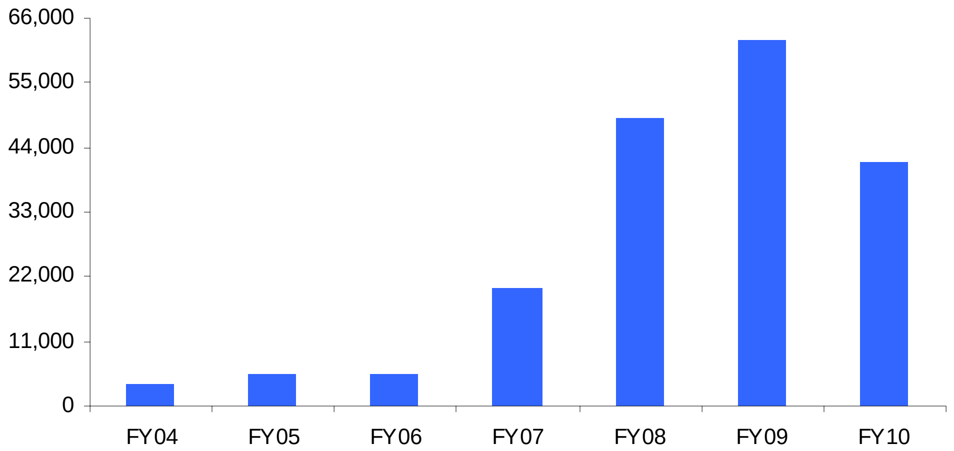
Idea's debt level to fall from current ~2.8x to 0.5x by FY15e

Exhibit 23: Idea Debt to EBIDTA



Source: Company, Antique

Exhibit 24: Idea - Capex (fixed asset)



Source: Company, Antique

Idea stock performance over the last few years

Exhibit 25: Idea Cellular - 1 Yr Fwd P/E

Source: TRAI, Antique

Exhibit 26: Idea Cellular - 1 Yr Fwd P/BV

Source: TRAI, Antique

Valuation

What we are considering?

- **Subscriber growth of 7% pa from FY12e to FY15e:** We are building in a subscriber growth of 7% CAGR, from ~90m subscriber in FY11 to ~118m subscribers in FY15e and an ARPU (average) of INR160.
- **Operating costs:** We are building in a sharp decline in operating cost from 90% in FY12e to 84% in FY15e (based on Idea's highest net subscriber addition), in spite of recurring losses from new circles and higher tower requirements with 3G roll out.

What we are not building in?

Smartphone and spectrum availability key constraints in 3G growth

- **3G not a game changer yet:** Although, we agree with the fact that there is huge demand for smart phones in India which can be taken as a dummy for demand for 3G services, few macro factors like low per capita income and high rural population forces us to believe that 3G probably will be significant story post FY15e. Hence, we are just building in a incremental revenue of ~INR4bn and ~INR9bn for FY12e and FY13e respectively.
- **No substantial tariff hikes:** We believe that higher tariffs will be detrimental to subscriber acquisition (in spite of the fact that the company has been able to increase tariff recently) and will also reduce the usage, thereby keeping ARPUs stable. Also, presence of multiple new vendors in each circle further reduces the chance of any aggressive tariff hikes.
- **Excess spectrum:** We are not forecasting any expense as of now for excess spectrum although the same could result in a cash outflow of ~USD250-300m.
- **Roaming abolition:** We are not building in possible revenue and EBITDA impact in case of abolition of roaming charges as recommended in the NTP.

DCF valuation

After considering all the above factors, we arrive at a DCF of INR92 for Idea. If we adjust PV of license fee renewal due from Dec 15, we arrive at an additional outflow of INR67bn which will have a possible impact of INR20/share. Taking into account above adjustment, we arrive at a target price of INR72/share.

Alternate to DCF

Idea, at the CMP of INR83, is trading at a PE of 26x our FY13e estimated EPS of INR3.2. The forward EV/EBIDTA for FY13e is 6.3x. Although Idea has done a commendable job in terms of subscribers addition, we believe that incrementally subscriber growth will decline and 3G pick up will take few more years to become PAT positive for the company. Even if we give a aggressive multiple of 24x to our FY13e EPS estimate assuming faster revenue growth and turnaround in new circles, we arrive at a target price of INR77.

We value Idea at INR74 after assigning 50% weightage to both of the above methodologies, implying a 10% downside from current levels. We recommend a HOLD on the stock.

Exhibit 27: Idea Cellular: DCF summary

Rsm, year-end March	FY12e	FY13e	FY14e	FY15e	FY16e	FY17e	FY18e	FY19e	FY20e
Key assumptions (%)									
Revenue growth	20.5	14.6	8.7	4.8	4.0	2.8	1.9	1.9	1.8
EBITDA growth	**29.1**	**24.3**	**17.0**	**7.1**	**6.4**	**4.6**	**2.1**	**2.2**	**1.8**
FCF growth	NM	2.1	36.8	19.7	10.2	2.2	(3.3)	0.4	0.1
EBITDA margin	**21.1**	**22.9**	**24.6**	**25.2**	**25.8**	**26.2**	**26.3**	**26.4**	**26.3**
FCF margin	4.2	11.1	13.9	15.9	16.9	16.8	15.9	15.7	15.4
Capex / sales	**17.1**	**13.2**	**10.9**	**8.5**	**8.3**	**8.3**	**8.9**	**8.8**	**9.1**
Debt / capital	45.2	40.0	30.6	17.3	(0.1)	(21.3)	(44.7)	(70.7)	(98.9)
RoCE (ex-cash)	6.7	6.9	9.7	10.9	11.9	12.4	12.4	12.2	11.5
EBIT X (1-tax rate)	17,271	17,596	25,610	27,674	29,522	31,271	32,877	35,666	37,967
Depreciation & Amortization	29,039	33,818	32,134	32,818	33,712	33,603	32,395	30,503	29,084
Change in net working capital	(6,497)	612	94	(815)	713	522	846	361	551
Operating FCF	**39,813**	**52,025**	**57,838**	**59,677**	**63,947**	**65,395**	**66,117**	**66,530**	**67,602**
Capital expenditure	**(32,037)**	**(28,273)**	**(25,351)**	**(20,785)**	**(21,106)**	**(21,599)**	**(23,754)**	**(23,981)**	**(25,011)**
Free cash flow (FCFF)	**7,776**	**23,751**	**32,487**	**38,892**	**42,841**	**43,797**	**42,363**	**42,549**	**42,591**

Source: Antique

Exhibit 28: DCF calculation

	Mar-12
Terminal growth rate (%)	2.50
WACC (%)	11.12
NPV of cash flows (2011e-2020e)	209,651
PV of terminal value	201,588
Enterprise Value (EV)	411,239
Terminal value as % of EV	49%
FY12e Effective net debt/(cash)	107,556
Equity value (Rsm)	303,683
Equity value (US$m)	6,198
Number of shares (m)	3,303
Equity value (Rs/share)	**92**

Source: Antique

Contingent liability

Idea acquired the Spice Telecom having operation in Punjab and Karnataka in July 2008. Department of Telecommunication has since then objected to the merger due to the overlapping of the licences held by the company after the acquisition. the Hon'ble High Court of Delhi on July 4, 2011 has reaffirmed its order dated Feb 5, 2010, sanctioning the Scheme of Amalgamation of Spice Communications Limited (Spice) with the Company. However, the judgement transferred & vested unto the Department of Telecommunications (DoT), the six telecom licenses granted to erstwhile Spice along with the spectrum (including two operational licenses for Punjab & Karnataka service areas) till the time permission of DoT is granted for transfer thereof upon an application from the Company to that effect. The company has filed an appeal before the Appellate Bench of Hon'ble High Court of Delhi, challenging the above judgement dated July 4, 2011. The Appellate Bench of Hon'ble High Court of Delhi through interim order has directed DOT to maintain status quo in respect of the two operational licenses for Punjab & Karnataka and not to take any coercive action for remaining four nonoperational licenses, till the next date of hearing. Accordingly, DoT has issued various demands on the company amounting to ~INR1.8bn.

Financials

Profit and loss account (INRm)

Year ended 31st Mar	2009	2010	2011	2012e	2013e
Revenues	101,544	124,471	155,032	187,039	214,333
Expenses	(73,333)	(90,999)	(117,126)	(139,593)	(156,538)
EBITDA	**28,210**	**33,472**	**37,907**	**47,446**	**57,795**
Depreciation & amortisation	(14,028)	(20,149)	(23,973)	(29,039)	(33,818)
EBIT	**14,183**	**13,322**	**13,933**	**18,407**	**23,978**
Interest expense	(9,212)	(6,814)	(5,160)	(10,452)	(9,778)
Other income	4,421	4,246	1,195	343	223
Profit before tax	**9,391**	**10,754**	**9,969**	**8,298**	**14,422**
Taxes incl deferred taxation	(576)	(1,214)	(982)	(872)	(3,930)
Profit after tax	**8,816**	**9,539**	**8,987**	**7,426**	**10,492**
Net profit	**8,816**	**9,539**	**8,987**	**7,426**	**10,492**
EPS	**2.84**	**2.89**	**2.72**	**2.25**	**3.18**

Balance sheet

Year ended 31st Mar	2009	2010	2011	2012e	2013e
Share Capital	31,020	33,462	33,530	33,530	33,530
Reserves & Surplus	101,633	80,261	89,469	96,896	105,456
Networth	**132,653**	**113,724**	**122,999**	**130,426**	**138,986**
Debt	89,122	78,593	120,705	120,705	115,705
Deferred tax liability	1,130	2,142	3,099	3,459	3,550
Capital Employed	**222,905**	**194,459**	**246,804**	**254,590**	**258,241**
Gross Fixed Assets	178,306	234,095	336,977	371,914	401,188
Accumulated Depreciation	45,233	68,615	112,128	141,167	174,984
Net Assets	**133,073**	**165,480**	**224,849**	**230,747**	**226,203**
Capital work in progress	21,409	5,465	36,467	33,467	32,467
Goodwill	22,457	61	61	61	61
Other non current assets	12,190	16,199	-	-	-
Current Assets, Loans & Advances					
Inventory	495	536	659	795	911
Debtors & Prepayments	2,461	4,656	4,789	4,415	4,340
Cash & Bank (inc investments)	51,316	14,204	14,777	13,168	22,975
Derivative & Other current assets	19,865	28,538	20,532	20,532	20,540
Current Liabilities & Provisions					
Creditors	16,858	24,352	37,682	26,861	26,814
Other liabilities & provisions	23,503	16,327	17,650	21,735	22,442
Net Current Assets	**33,776**	**7,254**	**(14,573)**	**(9,686)**	**(490)**
Application of Funds	**222,905**	**194,459**	**246,804**	**254,590**	**258,241**

Per share data

Year ended 31st Mar	2009	2010	2011	2012e	2013e
No. of shares (m)	3,100	3,300	3,303	3,303	3,303
BVPS (INR)	42.8	34.5	37.2	39.5	42.1
CEPS (INR)	4.5	6.1	7.3	8.8	10.2

Margins (%)

Year ended 31st Mar	2009	2010	2011	2012e	2013e
EBITDA	27.8	26.9	24.5	25.4	27.0
EBIT	14.0	10.7	9.0	9.8	11.2
PAT	8.7	7.7	5.8	4.0	4.9

Source: Company, Antique

Cash Flow Statement

Year ended 31st Mar	2009	2010	2011	2012e	2013e
Net profits after tax	**8,816**	**9,539**	**8,987**	**7,426**	**10,492**
Depreciation & amortisation	14,028	20,149	23,973	29,039	33,818
Interest expense	1,579	(1,441)	(4,067)	-	-
(Inc)/Dec in working capital	(4,133)	(7,504)	15,536	(6,497)	612
Tax paid	(1,463)	(2,347)	(3,327)	-	-
Others	(3,818)	(1,231)	381	17	(131)
CF from operating activities	**15,009**	**17,166**	**41,484**	**29,984**	**44,790**
Capital expenditure	(89,535)	(41,474)	(85,201)	(31,937)	(28,273)
Inc/(Dec) in investments	2,681	888	1,576	-	-
Interest Income	1,511	1,906	1,137	343	223
CF from investing activities	**(85,343)**	**(38,680)**	**(82,488)**	**(31,594)**	**(28,051)**
Inc/(Dec) in share capital	72,704	23	138	-	-
Inc/(Dec) in debt	36,956	(15,779)	42,543	-	(5,000)
Dividends paid	-	-	-	-	(1,932)
CF from financing activities	**109,660**	**(15,755)**	**42,681**	**-**	**(6,932)**
Net cash flow	**39,326**	**(37,269)**	**1,678**	**(1,610)**	**9,807**
Opening balance	11,990	51,473	2,900	4,577	2,968
Closing balance	**51,316**	**14,204**	**4,577**	**2,968**	**12,775**

Growth Indicators (%)

Year ended 31st Mar	2009	2010	2011	2012e	2013e
Revenue	50.7	22.6	24.6	20.6	14.6
EBITDA	24.3	18.6	13.3	25.2	21.8
PAT	(15.4)	8.2	(5.8)	(17.4)	41.3
EPS	(28.1)	1.7	(5.9)	(17.4)	41.3

Valuation (x)

Year ended 31st Mar	2009	2010	2011	2012e	2013e
PE	29.2	28.7	30.5	36.9	26.1
P/BV	1.9	2.4	2.2	2.1	2.0
EV/EBITDA	11.1	10.1	10.0	8.0	6.3
EV/Sales	3.1	2.7	2.5	2.0	1.7
EV/EBIT	22.0	25.4	27.3	20.7	15.3

Financial Ratios

Year ended 31st Mar	2009	2010	2011	2012e	2013e
RoE (%)	7	8	7	6	8
RoCE (%)	6	7	6	7	9
Debt/Equity (x)	0.7	0.7	1.0	0.9	0.8
EBIT/Interest (x)	1.5	2.0	2.7	1.8	2.5

Source: Company Antique

Important Disclaimer:

Analyst ownership in stock	No

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