

Competitive/regulatory headwinds persist; Industry taking corrective measures

Placing Neutral rating on Bharti; maintain Buy on Idea, Neutral on RCom

We hosted Bharti Airtel, Idea Cellular, and Reliance Communications at the Motilal Oswal 8th Annual Global Investor Conference 2012. Mr Akhil Gupta of Bharti Airtel and Mr Himanshu Kapania of Idea Cellular also presented at the CEO Track. Key highlights:

- The industry is taking corrective measures to contain channel commissions; sustenance remains key.
- Driving revenue growth could be challenging in the current environment.
- Spectrum pricing issue to be addressed once 2G auction concludes.
- Placing Neutral rating on Bharti; maintain Buy on Idea, Neutral on RCom.

Industry taking corrective measures to contain channel commissions; sustenance remains key

- GSM incumbents have reduced the channel commissions paid for subscriber acquisitions from August 2012 which should drive reduction in cost of customer acquisition (COCA).
- We understand that the operators would be refraining from 'negative landing' so as to rationalize the incentive structure and discourage mis-selling by the channel.
- If sustained, this initiative should alleviate margin pressure by controlling 'rotational churn' but would also impact subscriber additions/traffic/revenue in the near-term.
- Given the mixed success of prior corrective actions like tariff increases undertaken in July 2011, we believe sustenance of these measures in the current hypercompetitive environment would be the key.

Driving revenue growth could be challenging

- We expect monthly subscriber additions and 2Q traffic/revenue growth to remain muted given industry initiatives to control sales and distribution expenses. Our channel checks confirm sluggish traffic trends in 2QFY13 due to seasonality and corrective measures taken on the COCA front.
- While reduced channel commissions should support margins (our calculations suggest potential cost savings of ~100bp), it will likely be offset by negative operating leverage from muted revenue growth in the near-term.

Spectrum pricing issue to be addressed once 2G auction concludes

- The industry expects uncertainty on spectrum pricing to be conclusively resolved post the 2G spectrum

auctions scheduled in November 2012.

- Most operators are expected to follow a circle wise strategy in the auction.
- Apart from the final auction price, we believe the key factors to watch out for are: (1) Approach of major incumbents towards auction participation (given their stance that reserve price is exorbitant), and (2) Potential participation of Reliance Industries.

Placing Neutral rating on Bharti; Maintain Buy on Idea, Neutral on RCom

- **Neutral on Bharti:** We are placing a Neutral rating on Bharti (Under Review post 1QFY13 results) as valuations (6.7x FY13 EV/EBITDA) are fair given sluggish revenue growth outlook/regulatory concerns in India and macro issues/margin pressure in the Africa business. Our FY13 estimates of 3% EBITDA growth and third consecutive year of PAT decline reflect continued headwinds.

We believe that any meaningful recovery in the Indian wireless business would now be possible only from 4QFY13/FY14 led by potential industry consolidation post the 2G spectrum auction. Our target price of INR265 for Bharti is based on 7x FY14 EV/EBITDA for India & SA, 5x FY14 EV/EBITDA for Africa, and INR142b potential spectrum liability.

- **Maintain Buy on Idea** (trades at 6x FY13 EV/EBITDA) as it remains better placed to negotiate industry headwinds given relatively strong balance sheet and continued above industry growth driving market share gains.
- **Maintain Neutral on RCom** (trades at 6.7x FY13 EV/EBITDA).

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Investors are advised to refer through disclosures made at the end of the Research Report.

Comparative valuations

	CMP (INR)	Rating	TP (INR)	Upside (%)	EV (USD b)	P/E (x)			EV/EBITDA (x)			EV/Sales (x)		
						FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E
Bharti *	247	Neutral	265	7.9	28.7	21.9	32.8	23.6	6.8	6.8	5.7	2.3	2.1	1.8
Idea	75	Buy	90	21.0	6.8	34.0	21.0	12.5	7.4	6.0	4.7	1.9	1.6	1.3
RCom	48	Neutral	53	8.2	8.2	10.1	13.2	8.2	7.1	6.7	5.9	2.3	2.1	1.9

	RoIC (%)			RoE (%)			EBITDA Margin (%)			Net Debt/EBITDA (x)			Net Debt/Equity (x)		
	FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E
Bharti	6.1	4.5	6.2	8.1	5.3	7.0	33.2	30.5	31.1	2.7	2.8	2.2	1.2	1.3	1.0
Idea	5.8	6.9	9.7	5.7	8.6	13.0	26.1	26.3	28.0	2.6	2.2	2.1	1.0	0.8	0.6
RCom	4.1	4.2	4.8	2.9	2.3	3.7	31.7	30.8	31.3	5.6	5.4	5.5	1.1	1.0	0.9

	Capex/Sales (%)			Sales Gr. (%)			EBITDA Gr. (%)			EPS (INR)			EPS Gr. (%)		
	FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E
Bharti	19.6	18.9	12.3	20.2	12.2	10.4	18.8	3.2	12.5	11.2	7.5	10.4	-29.6	-33.2	39.2
Idea	19.8	14.4	10.1	26.0	18.4	12.5	34.3	19.6	19.8	2.2	3.5	6.0	-19.6	61.7	68.8
RCom	7.4	7.4	9.6	-1.1	5.2	5.9	-1.5	2.2	7.6	4.8	3.7	6.0	-33.8	-23.2	62.0

* Proportionate EV/EBITDA and EV/sales

Source: Company/MOSL

Bharti: SOTP Valuation

	FY14 EBITDA (INR b)	Ownership (%)	Proportionate EBITDA	EV/EBITDA (INR b)	Fair Value (INR b)	Value/Share (INR)
India business (incl. towers)	204	100	204	7.0	1,425	376
Africa business	72	90	64	5.0	322	85
Less FY14 net debt					604	159
Less 50% of potential spectrum liability					142	37
Total Value					1,002	265
Shares o/s (b)	3.79					
CMP						246
Upside (%)						8

Source: MOSL

Idea: SOTP Valuation

	Methodology	Driver	Multiple	Fair Value (INR b)	Value/sh (INR)
Core Business (ex-Indus)	FY14 EV/EBITDA	66	6.7	445	134
Stake in Indus	Tower base	108,500	INR5m/tower	69*	21
Less Net debt (FY14E)				96	29
Less 50% of potential spectrum liability				121	37
Total Value				297	90
Shares o/s (m)				3,303	
CMP (INR)					74
Upside (%)					21

* 80% stake in ABTL which owns 16% stake in Indus towers

Source: MOSL

RCom: SOTP Valuation

	Methodology	Driver	Multiple	Fair Value (INR b)	Value/sh (INR)
Core Business	FY13 EV/EBITDA	82	5.5	453	220
Reliance Infratel (incremental value)	Tower base	50,000	Rs1.5m/tower	75	36
Less Net debt (FY13E)				308	149
Total Value				220	106
Shares o/s (m)				2,063	
Value per share (INR)				106	
CMP				96	
Upside (%)					10

Source: MOSL



Bharti Airtel

BSE SENSEX 17,384 S&P CNX 5,254

CMP: INR247

TP: INR265

Neutral

Bloomberg BHARTI IN
Equity Shares (m) 3,793.9
52-Week Range (INR) 412/239
1,6,12 Rel. Perf. (%) -18/-29/-43
M.Cap. (INR b) 937.1
M.Cap. (USD b) 16.9

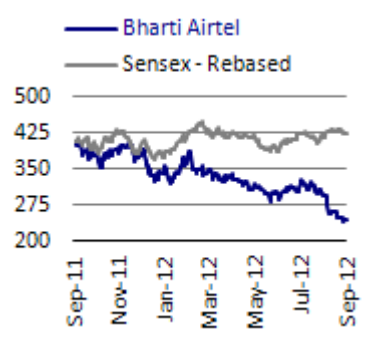
Valuation summary (INR b)

Y/E March	2012	2013E	2014E
Net Sales	714.5	801.7	884.8
EBITDA	237.1	244.6	275.3
NP	42.6	28.4	39.6
EPS (INR)	11.2	7.5	10.4
EPS Gr. (%)	-29.6	-33.2	39.2
BV/Sh.	140.7	143.7	154.0
P/E (x)	22.0	33.0	23.7
P/BV (x)	1.8	1.7	1.6
EV/EBITDA (x)	6.7	6.7	5.6
EV/Sales (x)	2.2	2.0	1.7
RoE (%)	8.1	5.3	7.0
RoCE (%)	6.2	4.5	5.1

Shareholding pattern %

As on	Jun-12	Mar-12	Jun-11
Promoter	45.7	45.7	45.5
Dom. Inst	8.4	8.2	8.5
Foreign	39.9	40.0	40.6
Others	6.0	6.2	5.4

Stock performance (1 year)



CEO Track – Mr Akhil Gupta

Sector/country fundamentals intact; irrational competition hurting

Core essence

- Sector/country fundamentals remain intact but adverse industry structure and irrational competition are hurting financial health.
- The industry has taken some corrective initiatives recently; unless these initiatives sustain and succeed, the outlook remains weak.

Industry insights

- High sales and distribution expenses due to rotational churn remain a significant drag on margins.
- Data and 3G pick-up remain key long-term growth drivers, e.g. Bharti already has 39m data users out of its overall India subscriber base of ~190m. Data is growing at 25%+ QoQ.
- Most operators have deep pockets, which is driving irrational competition.

Company vision and strategy

- Aim to reduce Net Debt/EBITDA for the company to 2.5x (2.9x in 1QFY13).
- Taking initiatives to curb irrational competition in terms of sales and distribution expenses.
- Expect steady growth in Africa, but very high growth is unlikely, as tariffs remain relatively high (>5 cents per minute v/s less than 1 cent in India).

Key triggers/milestones/challenges

- Regulatory clarity on spectrum payments/allocation.
- Industry has been, over the last month, trying to ensure no negative landing, which should be positive for margins.
- Political will for reform and pro-industry/pro-growth measures remain low, dampening the investment mood.

Management interaction takeaways

Post the sharp margin pressure witnessed in 1QFY13, industry leaders have initiated corrective measures like rationalizing channel commissions, promotions, freebies, etc, which should plug the leakages and drive RPM improvement. However, these measures will also negatively impact subscriber/traffic growth in the near term.

Industry taking corrective measures like refraining from “negative landing”; driving revenue growth could be a key challenge, in our view

- While Bharti’s aggressive pricing and promotions since 4QFY12 helped restore market share, margin performance has been significantly impacted.

- The industry majors have now initiated corrective measures, which if sustained, would plug the leakages and reduce rotational churn.
- The key initiative would be to desist from offers having “negative landing”.
- These measures would impact subscriber addition/traffic in the near term, but should help in reducing churn rate.
- We believe that growing traffic and revenue while implementing these measures would be the key challenge; margin improvement could be difficult on a sluggish revenue growth trajectory, given the high proportion of fixed costs.

2G cloud to clear post auction; expect participants to take circle-wise approach

- Given the cabinet decision of relatively high reserve price of INR140b for a 5MHz block in the upcoming 2G auction, higher spectrum price is a business reality.
- However, 2G auction will remove the current regulatory uncertainty and let operators take informed business decisions.
- Over-bidding in 2G auction appears unlikely, given challenges on the balance sheet front for most operators. Participants are likely to take a selective circle-wise approach. Probability of incumbents bidding in a significant way is low.
- Current hyper competition in the market is unlikely to sustain.

Africa: Investing in 3G; data to be the revenue driver

- Bharti has been relatively cautious in reducing tariffs to induce elasticity in the Africa market.
- Given relatively high tariff levels and no scope for significant tariff cuts in Africa, voice growth will remain modest.
- However, Bharti is focusing on significant investment in 3G network so that data can drive growth without cannibalizing the voice revenue/EBITDA.

Valuation and view

Bharti trades at EV/EBITDA of 6.7x FY13 and 5.6x FY14. We are placing **Neutral** rating (Under Review earlier) with a target price of INR265/sh based on 7x FY14 EV/EBITDA for India & SA; 5x FY14 EV/EBITDA for Africa business, and INR142b potential regulatory outlay.

Bharti: Key Assumptions and other data

	FY10	FY11	FY12	FY13E	FY14E
Mobile segment					
Mobile - India					
Subs (m)	128	162	181	202	216
YoY (%)	36	27	12	11	7
Average subs (m)	111	145	172	191	209
YoY (%)	42	31	19	11	9
Netadds per month (m)	2.8	2.9	1.6	1.7	1.2
YoY (%)	6	3	-45	7	-29
Total mobile traffic (b min)	610	792	889	997	1,082
YoY (%)	28	30	12	12	9
ARPU (INR/month)	243	201	188	185	188
YoY (%)	-25	-17	-6	-2	2
MOU	459	455	431	434	432
YoY (%)	-10	-1	-5	1	-1
Mobile RPM (INR)	0.53	0.44	0.44	0.43	0.44
YoY (%)	-17	-17	-1	-2	3
Mobile EBITDA margin (%)	38.7	34.7	33.9	30.9	31.9
Mobile Capex (INR b)	34	59	32	76	46
Mobile Capex/sales (%)	10	16	8	17	9
Mobile - Africa					
Subs (m)		44	53	65	78
YoY (%)		5	20	22	20
Netadds per month (m)		0.2	0.7	1.0	1.1
ARPU (USD/month)		7.3	7.1	6.3	5.8
YoY (%)			-2	-11	-8
Capex (USD b)		0.9	1.5	0.9	1.0
Capex/Sales (%)		24	37	19	20
EBITDA margin (%)		25	27	26	26
Passive Infrastructure					
Indus Towers					
Towers (000s)	103	109	109	110	111
Cellsites (000s)	176	201	214	225	238
Tenancy ratio (x)	1.7	1.9	2.0	2.1	2.2
Sharing rev. per operator/month (INR 000s)		29.5	31.3	28.1	27.3
EBITDA margin (%)		26.6	28.5	24.4	23.4
Bharti Infratel					
Towers (000s)	31	33	33	35	37
Cellsites (000s)	50	58	60	66	73
Tenancy ratio (x)	1.6	1.8	1.8	1.9	2.0
Sharing rev. per operator/month (INR 000s)	37.2	37.0	37.3	35.5	34.3
EBITDA margin (%)	46.2	48.1	47.8	46.6	46.1

Source: Company/MOSL

Bharti: Business Mix

	FY10	FY11	FY12	FY13E	FY14E
Revenue (INR b)					
Mobile	331	363	403	444	494
Telemedia	34	36	37	38	38
Enterprise	45	41	45	48	51
Passive Infrastructure	71	86	95	96	101
Others	6	10	16	19	22
Africa	0	131	198	243	272
Total revenue	487	667	794	887	977
Eliminations and others	-68	-72	-80	-85	-93
Consolidated revenue	418	595	715	802	885
YoY%	13	42	20	12	10
EBITDA (INR b)					
Mobile	128	126	137	137	158
Telemedia	15	16	16	15	14
Enterprise	13	10	8	8	9
Passive Infrastructure	25	32	36	34	35
Others	-10	-10	-9	-10	-8
Total India & SA	168	171	184	182	204
Africa	0	29	53	63	72
Total revenue	170	202	240	248	279
Eliminations and others	-2	-3	-3	-3	-4
Consolidated EBITDA	168	200	237	245	275
YoY%	11	19	19	3	13
Capex (INR b)					
Mobile	34	59	32	76	46
Telemedia	10	8	8	6	-12
Enterprise	12	4	2	1	1
Others	16	14	9	13	13
Passive infrastructure	12	23	14	9	7
Africa	0	36	76	47	54
Consolidated capex	83	143	140	152	109
YoY%	-41	71	-2	8	-28
Capex/Sales (%)	20	24	20	19	12

Source: Company/MOSL

Bharti Airtel: Financials and Valuations

Income Statement		(INR Million)			
Y/E March	2011	2012	2013E	2014E	
Revenues	594,672	714,507	801,736	884,756	
Change (%)	42.1	20.2	12.2	10.4	
Total Expenses	395,007	477,385	557,138	609,474	
EBITDA	199,664	237,122	244,597	275,282	
% of Gross Sales	33.6	33.2	30.5	31.1	
Deprn. & Amortization	102,066	133,680	155,780	162,892	
EBIT	97,598	103,442	88,818	112,390	
Net finance cost	21,813	38,185	38,559	38,963	
Other Income	998	-73	-222	-245	
PBT	76,783	65,184	50,037	73,182	
Tax	17,790	22,602	21,217	27,654	
Rate (%)	23.2	34.7	42.4	37.8	
Minority Interest	-1,475	-13	381	5,952	
Adjusted PAT	60,468	42,595	28,439	39,577	

Balance Sheet		(INR Million)			
Y/E March	2011	2012	2013E	2014E	
Share Capital	18,988	18,988	18,988	18,988	
Add. Paid up Capital	56,499	56,499	56,499	56,499	
Reserves	412,181	430,626	443,150	476,363	
Net Worth	487,668	506,113	518,637	551,850	
Loans	616,708	690,232	871,062	970,254	
Minority Interest	28,563	27,695	26,409	32,360	
Other Liabilities	28,078	31,920	38,739	39,845	
Deferred Tax Liability	18,572	18,861	22,124	22,943	
Capital Employed	1,179,589	1,274,821	1,476,971	1,617,252	
Gross Block	1,599,377	1,776,560	1,928,439	2,037,680	
Less : Depreciation	310,634	440,740	517,139	680,037	
Net Block	1,288,743	1,335,820	1,411,300	1,357,643	
Other Non-Current Assets	64,244	86,711	106,505	107,146	
Curr. Assets	112,077	148,084	304,832	504,140	
Inventories	2,139	1,308	1,341	1,479	
Debtors	54,929	63,735	75,675	82,182	
Cash & Bank Balance	9,575	20,300	82,921	172,921	
Short-term investments	6,968	18,934	93,490	193,490	
Other Current Assets	38,466	43,807	51,405	54,068	
Curr. Liab. & Prov.	285,475	295,795	345,666	351,678	
Creditors	249,737	243,461	297,728	303,465	
Other Current Liabilities	35,738	52,334	47,937	48,213	
Net Curr. Assets	-173,398	-147,710	-40,834	152,462	
Appl. of Funds	1,179,589	1,274,821	1,476,970	1,617,252	

E: MOSL Estimates

Ratios					
Y/E March	2011	2012	2013E	2014E	
Basic (INR)					
EPS	15.9	11.2	7.5	10.4	
Cash EPS	42.8	46.5	48.6	53.4	
Book Value	136.1	140.7	143.7	154.0	
DPS	1.0	1.1	0.7	1.0	
Payout %(Incl.Div.Taxes)	6.3	10.0	10.0	10.0	
Valuation (x)					
P/E		22.0	33.0	23.7	
Cash P/E		5.3	5.1	4.6	
EV/EBITDA		6.7	6.7	5.6	
EV/Sales		2.2	2.0	1.7	
Price/Book Value		1.8	1.7	1.6	
Dividend Yield (%)		0.5	0.3	0.4	
Profitability Ratios (%)					
RoE	12.6	8.1	5.3	7.0	
RoCE	8.7	6.2	4.5	5.1	
Turnover Ratios					
Debtors (Days)	34	33	34	34	
Asset Turnover (x)	0.78	0.65	0.70	0.78	
Leverage Ratio					
Net Debt/Equity (x)	1.2	1.2	1.3	1.0	

Cash Flow Statement		(INR Million)			
Y/E March	2011	2012	2013E	2014E	
Op.Profit/(Loss) bef Tax	199,664	237,122	244,597	275,282	
Other Income	998	-73	-222	-245	
Interest Paid	-21,813	-38,185	-38,559	-38,963	
Direct Taxes Paid	-37,970	-25,730	-28,673	-27,654	
(Inc)/Dec in Wkg. Cap.	120,819	-18,280	42,819	-4,344	
CF from Op.Activity	261,699	154,854	219,963	204,076	
(inc)/Dec in FA + CWIP	-848,290	-180,757	-231,260	-109,235	
(Pur)/Sale of Investmen	45,451	-11,990	-83,761	-100,000	
CF from Inv.Activity	-802,839	-192,748	-315,020	-209,235	
Issue of Shares	9,624	-19,791	-18,641	-74	
Inc/(Dec) in Debt	514,810	73,524	180,830	99,192	
Other Financing Activities	961	-5,113	-4,508	-3,959	
CF from Fin.Activity	525,395	48,620	157,681	95,159	
Inc/(Dec) in Cash	-15,748	10,725	62,621	90,000	
Add: Opening Balance	25,323	9,575	20,300	82,921	
Closing Balance	9,575	20,300	82,921	172,921	



Idea Cellular

BSE SENSEX 17,384 S&P CNX 5,254

Bloomberg IDEA IN
Equity Shares (m) 3,308.8
52-Week Range (INR) 104/71
1,6,12 Rel. Perf. (%) -9/-22/-29
M.Cap. (INR b) 248.2
M.Cap. (USD b) 4.5

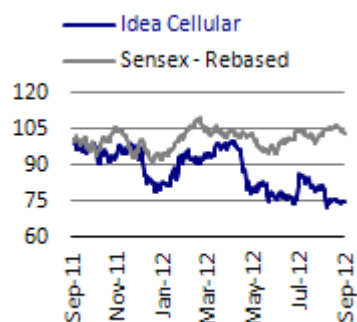
Valuation summary (INR b)

Y/E March	2012	2013E	2014E
Sales	195.4	231.3	260.3
EBITDA	50.9	60.9	73.0
NP	7.2	11.7	19.8
EPS (INR)	2.2	3.5	6.0
EPS Gr. (%)	-19.6	61.7	68.8
BV/Sh. (INR)	39.5	43.0	48.9
P/E (x)	34.3	21.2	12.6
P/BV (x)	1.9	1.7	1.5
EV/EBITDA (x)	7.4	6.1	4.7
EV/Sales (x)	1.9	1.6	1.3
RoE (%)	5.7	8.6	13.0
RoCE (%)	5.4	6.6	9.3

Shareholding pattern %

As on	Jun-12	Mar-12	Jun-11
Promoter	46.0	46.0	46.0
Dom. Inst	6.9	6.2	8.0
Foreign	44.8	45.2	43.0
Others	2.4	2.6	3.0

Stock performance (1 year)



CMP: INR75

TP: INR90

Buy

CEO Track – Mr Himanshu Kapania

Industry potential intact; consolidation inevitable

Core essence

- Industry potential for voice and data growth is intact.
- The sector is now better placed to enforce competitive discipline, as relative gap between scale/margins of incumbents has reduced.
- Upcoming 2G spectrum auction will be a defining event.

Industry insights

- Industry consolidation is inevitable, given significant losses for challengers and upcoming increase in spectrum costs.
- Tariffs and margins are bound to reverse; the industry is now better placed to enforce discipline, as relative gap in scale/margins of incumbents has reduced.
- Expect telecom sector revenue to grow at a CAGR of 10-12% over the next 10 years.

Company vision and strategy

- Idea has scaled up significantly over the last two years, with the top player's lead over Idea in the India wireless business reducing from 2.7x to 1.9x in revenue terms and from 4.1x to 2.5x in EBITDA terms.
- It plans to tap the data opportunity by positioning 3G as a mass product.
- It intends to maintain leadership in the established circles; cautiously invest in new circles to maintain effective deterrent.

Key triggers/milestones/challenges

- Industry VLR subscriber base remains under 700m and has the potential to reach 1b.
- Upcoming Supreme Court mandated 2G auction will be a defining moment for the sector, and force various industry participants to rethink their strategies and cash losses.
- Industry initiatives to reduce subscriber churn will bring sanity in the market and support margins.

Valuation and view

We expect consolidated EBITDA CAGR of 20% over FY12-14, largely driven by 17% traffic CAGR. The stock trades at an EV of 6.3x FY13E and 4.9x FY14E EBITDA. Maintain **Buy** with a target price of INR90 based on 6.7x FY14 EV/EBITDA (5% discount v/s Bharti) for wireless business, INR5m/tower for stake in Indus, and INR121b potential regulatory outlay.

Idea: Key Assumptions and other data

	FY10	FY11	FY12	FY13E	FY14E
Subs (m)	64	90	113	129	142
YoY (%)	48	40	26	14	10
Average subs (m)	53	77	101	121	135
YoY (%)	70	44	32	19	12
Netadds per month ex acquisition (m)	1.7	2.1	1.9	1.3	1.1
YoY (%)	40	23	-10	-31	-19
Total mobile traffic (b min)	225	363	453	556	616
YoY (%)	46	45	25	23	11
Average Rev Per User (INR/month)	207	165	158	156	157
YoY (%)	-21	-20	-5	-1	0
Minutes of Use/Sub/Month	388	394	372	383	380
YoY (%)	-5	2	-6	3	-1
Mobile RPM (INR)	0.53	0.42	0.42	0.41	0.41
YoY (%)	-18	-21	1	-4	1
Mobile EBITDA/min. (INR)	0.15	0.10	0.11	0.11	0.12
YoY (%)	-19	-30	8	-3	8
Capex (INRb)	33	88	39	33	26
Capex / Sales (%)	27	57	20	14	10
Consolidated revenue break-up (INR b)					
13 established service areas	118	142	174	202	222
9 new service areas	8	15	21	27	33
Idea standalone (ex-3G)	126	156	195	229	255
Proportionate revenue - Indus	8	11	13	20	22
Incremental 3G revenue		0	1	4	6
Eliminations	-11	-12	-14	-22	-24
Consolidated revenue	124	155	195	231	260
YoY growth (%)	22	25	26	18	13
Consolidated EBITDA break-up (INR b)					
13 established service areas	35	39	51	60	69
9 new service areas	-4	-5	-6	-7	-6
Idea standalone (ex-3G)	31	33	45	53	64
Proportionate EBITDA - Indus	3	5	6	6	7
Incremental 3G EBITDA		0	0	1	3
Consolidated EBITDA	34	38	51	61	73
Consolidated EBITDA margin (%)	27	24	26	26	28
YoY growth (%)	20	11	34	20	20

Source: Company/MOSL

Idea Cellular: Financials and Valuations

Income Statement		(INR Million)			
Y/E March	2011	2012	2013E	2014E	
Revenues	155,032	195,412	231,315	260,293	
Change (%)	24.5	26.0	18.4	12.5	
Total Expenses	117,127	144,489	170,397	187,317	
EBITDA	37,906	50,924	60,919	72,976	
% of Gross Sales	24.5	26.1	26.3	28.0	
Depn.&Amortization	23,973	29,814	34,474	36,023	
EBIT	13,933	21,110	26,445	36,953	
Net Interest	3,965	10,557	9,706	8,709	
PBT	9,968	10,553	16,739	28,244	
Tax	982	3,322	5,032	8,473	
Rate (%)	9.9	31.5	30.1	30.0	
Adjusted PAT	8,986	7,231	11,707	19,770	
Change (%)	-5.8	-19.5	61.9	68.9	
PAT after EO	8,986	7,231	11,707	19,770	

Balance Sheet		(INR Million)			
Y/E March	2011	2012	2013E	2014E	
Share Capital	33,033	33,088	33,097	33,097	
Additional Paid up Capital	139,406	139,406	139,406	139,406	
Reserves	-49,440	-41,994	-30,334	-10,563	
Net Worth	122,999	130,501	142,170	161,940	
Loans	120,228	133,372	124,050	100,035	
Other Liabilities	3,099	6,273	7,129	7,129	
Capital Employed	246,326	270,146	273,349	269,104	
Gross Block	373,505	418,016	455,316	480,181	
Less : Depreciation	112,128	141,040	175,514	211,537	
Net Block	261,377	276,976	279,802	268,644	
Other Non-Current Assets	0	0	0	0	
Curr. Assets	42,378	36,192	58,823	65,737	
Inventories	542	688	1,136	1,278	
Debtors	4,057	5,144	10,324	11,618	
Cash & Bank Balance	14,777	2,497	3,632	3,632	
Other Current Assets	23,002	27,863	43,731	49,210	
Curr. Liab. & Prov.	57,429	43,022	65,277	65,277	
Net Curr. Assets	-15,051	-6,830	-6,454	460	
Appl. of Funds	246,326	270,146	273,349	269,104	

E: MOSL Estimates

Ratios					
Y/E March	2011	2012	2013E	2014E	
Basic (INR)					
EPS	2.7	2.2	3.5	6.0	
Cash EPS	10.0	11.2	14.0	16.9	
Book Value	37.2	39.5	43.0	48.9	
DPS	0.0	0.0	0.0	0.0	
Payout %(Incl.Div.Taxes)	0.0	0.0	0.0	0.0	
Valuation (x)					
P/E		34.3	21.2	12.6	
Cash P/E		6.7	5.4	4.4	
EV/EBITDA		7.4	6.1	4.7	
EV/Sales		1.9	1.6	1.3	
Price/Book Value		1.9	1.7	1.5	
Dividend Yield (%)		0.0	0.0	0.0	
Profitability Ratios (%)					
RoE	7.6	5.7	8.6	13.0	
RoCE	5.2	5.4	6.6	9.3	
Turnover Ratios					
Debtors (Days)	10	10	16	16	
Asset Turnover (x)	0.75	0.78	0.86	0.97	
Leverage Ratio					
Debt/Equity Ratio(x)	1.0	1.0	0.9	0.6	

Cash Flow Statement		(INR Million)			
Y/E March	2011	2012	2013E	2014E	
Op.Profit/(Loss) bef Tax	37,906	50,924	60,919	72,976	
Other Income	0	0	0	0	
Interest Paid	-3,965	-10,557	-9,706	-8,709	
Direct Taxes Paid	-25	-148	-4,176	-8,473	
(Inc)/Dec in Wkg. Cap.	23,098	-20,156	712	-6,914	
CF from Op.Activity	57,014	20,063	47,748	48,879	
(inc)/Dec in FA + CWIP	-98,145	-45,413	-37,300	-24,865	
(Pur)/Sale of Investments	0	0	0	0	
CF from Inv.Activity	-98,145	-45,413	-37,300	-24,865	
Issue of Shares	69	-74	9	0	
Inc/(Dec) in Debt	41,635	13,144	-9,322	-24,015	
Other Financing Activities	-2	-2	-2	-2	
CF from Fin.Activity	41,704	13,070	-9,313	-24,015	
Inc/(Dec) in Cash	573	-12,280	1,135	0	
Add: Opening Balance	14,204	14,777	2,497	3,632	
Closing Balance	14,777	2,497	3,632	3,632	

E: MOSL Estimates



Reliance Communication

BSE SENSEX 17,384	S&P CNX 5,254
Bloomberg Equity Shares (m)	RCOM IN 2,063.0
52-Week Range (INR)	110/47
1,6,12 Rel. Perf. (%)	-15/-51/-47
M.Cap. (INR b)	99.0
M.Cap. (USD b)	1.8

CMP: INR48

TP: INR53

Neutral

Management interaction takeaways

Industry highly leveraged; RCom better placed due to no license/spectrum payouts

The industry, including Reliance Communications (RCom), has become highly leveraged. RCom is relatively better placed v/s GSM incumbents, as there are no imminent payouts related to license renewal/spectrum re-farming.

Valuation summary (INR b)

Y/E March	2012	2013E	2014E
Sales	203.4	214.0	226.6
EBITDA	64.5	65.9	71.0
NP	9.9	7.6	12.3
EPS (INR)	4.8	3.7	6.0
EPS Gr. (%)	-33.8	-23.2	62.0
BV/Sh.	157.9	158.6	164.3
P/E (x)	10.0	13.1	8.1
P/BV (x)	0.3	0.3	0.3
EV/EBITDA (x)	7.1	6.7	5.9
EV/Sales (x)	2.2	2.1	1.8
RoE (%)	2.9	2.3	3.7
RoCE (%)	2.7	2.9	3.4

Competitive pressure remains high; higher spectrum costs/balance sheet stress should restore rationality

- Competitive pressure remains high, given overcapacity in the telecom sector.
- Potential higher outlay towards spectrum should restore rationality among all operators.

No operational impact due to FLAG IPO not getting through

- FLAG IPO could not go through due to tough market environment and differences in valuation expectations.
- However, this has no immediate operational impact on RCom, as the proposed fund raising was aimed as de-leveraging at consolidated level and not towards any specific plans/projects.

Reduction in 3G data prices positive for development of data market

- The industry has significantly lowered 3G data prices to induce demand.
- Lower data pricing has been the key requirement towards developing the data market and is a positive step.

Shareholding pattern %

As on	Jun-12	Mar-12	Jun-11
Promoter	48.6	48.6	48.1
Dom. Inst	21.3	21.2	21.0
Foreign	16.5	16.3	17.1
Others	13.6	14.0	13.8

Valuation and view

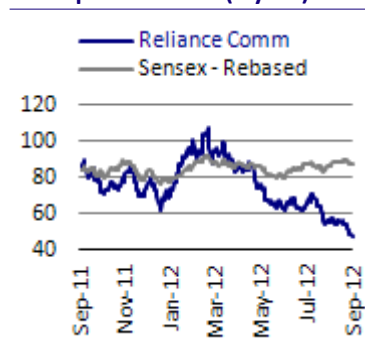
- RCom trades at EV/EBITDA of 6.7x FY13 and 5.9x FY14.
- Maintain **Neutral** with a target price of INR53/sh based on 6x FY14 EV/EBITDA.

Reliance Communications: Key Assumptions and other data

Business mix

	FY10	FY11	FY12	FY13E	FY14E
Revenue mix (%)					
Wireless	61	62	65	65	66
Global	29	28	25	26	25
Broadband	10	10	10	9	9
EBITDA mix (%)					
Wireless	66	66	67	67	68
Global	21	20	19	22	22
Broadband	14	13	13	11	10
Capex mix (%)					
Wireless	79	92	62	60	68
Global	18	6	29	25	26
Broadband	3	1	10	15	6

Stock performance (1 year)



Reliance Communications: Key Assumptions and other data (continued)

	FY10	FY11	FY12	FY13E	FY14E
Wireless					
Subs (m)	102	136	153	161	171
YoY (%)	41	33	13	5	6
Average subs (m)	88	119	144	157	166
YoY (%)	48	36	21	9	6
Netadds per month (m)	2.48	2.77	1.4	0.7	0.8
YoY (%)	11	12	-48	-52	16
Total mobile traffic (b min)	351	375	399	426	446
YoY (%)	27	7	7	7	5
Average Rev Per User (INR/month)	161	116	102	98	99
YoY (%)	-34	-28	-12	-4	1
Minutes of Use/Sub/Month	334	262	231	226	224
YoY (%)	-14	-21	-12	-2	-1
Wireless RPM (INR)	0.48	0.44	0.44	0.43	0.44
YoY (%)	-23	-8	0	-2	2
Wireless EBITDA/min (INR)	0.16	0.13	0.12	0.11	0.12
YoY (%)	-34	-21	-6	-5	4
Wireless capex (INR b)	31	116	8	9	14
Wireless Capex/Sales (%)	19	70	5	5	7
Global					
Minutes carried					
NLD minutes (b)	51	65	65	62	64
YoY (%)	59	26	0	-5	4
ILD minutes (m)	10	15	20	22	24
YoY (%)	30	57	28	13	5
Broadband					
Access lines (000s)	1,469	1,514	1,515	1,525	1,535
YoY%	6.1	3.1	0.1	0.7	0.7
Average access lines (000s)	1,427	1,492	1,515	1,520	1,530
YoY%	18.1	4.5	1.5	0.4	0.7
Netadds per month (000s)	18	5	2	0	1
YoY%	-42.7	-70.5	-64.3	-76.1	81.8
Revenue (INR b)					
Wireless	169	166	177	185	198
GEBU	110	102	94	100	102
Total revenue	279	267	271	284	301
Eliminations and others	57	62	68	71	74
Consolidated revenue	222	206	203	214	227
YoY%	-3	-8	-1	5	6
EBITDA (INR b)					
Wireless	56	47	47	48	52
GEBU	29	24	23	24	25
Total EBITDA	85	71	70	72	77
Eliminations and others	6	6	6	6	6
Consolidated EBITDA	79	66	65	66	71
YoY%	-15	-17	-2	2	8
EBITDA margin (%)	35.5	31.9	31.7	30.8	31.3

Source: Company/MOSL

Reliance Communications: Financials and Valuations

Income Statement		(INR Million)			
Y/E March	2011	2012	2013E	2014E	
Revenues	205,627	203,424	213,979	226,617	
Change (%)	-7.6	-1.1	5.2	5.9	
EBITDA	65,515	64,506	65,949	70,981	
% of Gross Sales	31.9	31.7	30.8	31.3	
Depn. & Amortization	39,739	39,783	37,254	38,571	
EBIT	25,776	24,723	28,694	32,410	
Net Interest and other:	-10,723	-15,901	-21,033	-19,866	
PBT	15,053	8,822	7,661	12,545	
Tax	117	-1,062	74	250	
Rate (%)	0.8	-12.0	1.0	2.0	
Adjusted PAT	14,936	9,884	7,587	12,295	
Change (%)	-69.4	-33.8	-23.2	62.0	
PAT after EO	13,457	9,274	6,611	10,829	

Balance Sheet		(INR Million)			
Y/E March	2011	2012	2013E	2014E	
Share Capital	10,320	10,320	10,320	10,320	
Additional Paid up Cap	90,306	90,306	90,306	90,306	
Reserves	256,892	216,497	216,932	227,157	
Net Worth	357,518	317,123	317,558	327,784	
Loans	373,757	369,178	364,610	341,371	
Minority Interest	8,245	8,602	9,683	11,148	
Capital Employed	739,520	694,903	691,851	680,302	
Gross Block	1,002,814	1,045,869	1,087,660	1,109,462	
Less : Depreciation	273,406	331,091	379,870	418,441	
Net Block	729,408	714,778	707,789	691,021	
Investments	1,089	1,230	1,284	1,284	
Curr. Assets	160,784	160,806	179,806	189,132	
Inventories	5,172	5,663	5,077	5,377	
Debtors	40,017	35,839	41,876	44,349	
Cash & Bank Balance	53,272	10,785	21,891	21,891	
Other Current Assets	62,323	108,519	110,962	117,515	
Curr. Liab. & Prov.	151,761	181,911	197,028	201,135	
Net Curr. Assets	9,023	-21,105	-17,222	-12,003	
Appl. of Funds	739,520	694,903	691,851	680,302	

E: MOSL Estimates

Ratios		(INR Million)			
Y/E March	2011	2012	2013E	2014E	
Basic (INR)					
EPS	7.2	4.8	3.7	6.0	
Cash EPS	26.5	24.1	21.7	24.7	
Book Value	177.3	157.9	158.6	164.3	
DPS	0.6	0.3	0.3	0.3	
Payout %(Incl.Div.Taxes)	9.0	6.5	9.1	5.6	
Valuation (x)					
P/E		10.0	13.1	8.1	
Cash P/E		2.0	2.2	1.9	
EV/EBITDA		7.1	6.7	5.9	
EV/Sales		2.2	2.1	1.8	
Price/Book Value		0.3	0.3	0.3	
Dividend Yield (%)		0.6	0.6	0.6	
Profitability Ratios (%)					
RoE	3.9	2.9	2.3	3.7	
RoCE	2.9	2.7	2.9	3.4	
Turnover Ratios					
Debtors (Days)	71	64	71	71	
Asset Turnover (x)	0.32	0.30	0.32	0.34	
Leverage Ratio					
Debt/Equity Ratio(x)	1.0	1.1	1.1	1.0	

Cash Flow Statement		(INR Million)			
Y/E March	2011	2012	2013E	2014E	
Op.Profit/(Loss) bef Tax	64,036	63,896	64,972	69,517	
Other Income	0	0	0	0	
Interest Paid	-10,723	-15,901	-21,033	-19,866	
Direct Taxes Paid	-117	1,062	-74	-250	
(Inc)/Dec in Wkg. Cap.	-120,718	-61,424	1,650	-5,220	
CF from Op.Activity	-67,522	-12,367	45,515	44,181	
(inc)/Dec in FA + CWIP	-53,752	-25,153	-30,266	-21,803	
(Pur)/Sale of Investme	110	-141	-54	0	
CF from Inv.Activity	-53,642	-25,294	-30,320	-21,803	
Issue of Shares	0	0	0	0	
Inc/(Dec) in Debt	126,284	-4,579	-4,568	-23,239	
Dividends Paid	2	2	2	2	
Other Financing Activit	-434	-246	478	861	
CF from Fin.Activity	125,852	-4,823	-4,088	-22,376	
Inc/(Dec) in Cash	4,687	-42,487	11,106	0	
Add: Opening Balance	48,585	53,272	10,785	21,891	
Closing Balance	53,272	10,785	21,891	21,891	

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