

India: Telecom Services

Equity Research

Structural improvement warrants re-rating; add Bharti to CL-Buy

Add preferred pick Bharti to CL-Buy; also reiterate Buy on Idea

We add Bharti to our Conviction Buy List as we consider it to be the operator best positioned to benefit from an improving regulatory environment and declining competition. We also reiterate our Buy rating on Idea, even after potential license cancellation notice for nine circles, as we expect benefits from easing competitive environment in its incumbent circles to more than offset an increase in re-bidding costs in its new circles.

Downside risks to competition and regulatory payments

We believe any potential license cancellation of new entrants would reduce competition. Even if the new entrants rebid again to acquire spectrum, their financial position would be weaker, in our view, thus giving bargaining power to operators like Bharti/Vodafone to raise tariffs. In addition, we see downside risks to regulatory payment related to excess 2G spectrum pricing for Bharti/Idea if the Telcos commission/TDSAT decides to use the price determined in auction rather than TRAI-determined prices. We believe any price determined in a potential 2G auction may be lower than TRAI's 2G excess spectrum pricing (Rs11/Rs5 for Bharti/Idea), as the demand for 1800 MHz spectrum is relatively lower.

Target prices raised to factor in easing competition

We raise our Bharti/Idea FY13E-FY14E revenue estimates by 2%-3% to factor in better than expected incremental revenue market share, as we expect less intense competition from affected operators. Accordingly, our FY13E/FY14E EPS increases by 5%/7% for Bharti and 9%/9% for Idea. Our 12-m SOTP-based TP thus increases by 11% to Rs475 for Bharti and 4% to Rs111 for Idea. On FY13E/FY14E EPS, we are now 3%/10% ahead of consensus for Bharti and 4%/8% ahead of consensus for Idea.

For Idea: Easing competition (Rs10) offsets rebid payment (Rs6)

As Idea's new circles are EBITDA-negative, we believe Idea's P&L without these nine circles would have better EBITDA/EPS for FY13/FY14. Our pro forma numbers imply 3%/17% increase in FY13E EBITDA/EPS if licenses are cancelled. However, as we consider Idea to be a long-term committed operator, we expect it to re-bid for spectrum in the upcoming 2G auction. Our target price assumes Idea pays an amount equivalent to the winning 3G spectrum pricing (Rs6/share) to acquire spectrum in these circles.

SUMMARY OF RATINGS & TARGET PRICES

Ticker	Rating	Current Price (Rs)	12-m TP (Rs)	Potential upside
Bharti BRTI.BO	Buy*	388.60	475	22%
Idea IDEA.BO	Buy	93.80	111	18%

Note: 1) * On Conviction List; 2) Target prices for Bharti and Idea based on SOTP. Share prices as of Feb 3, 2012.
Source: FactSet, Goldman Sachs Research estimates.

Risks: 1) Lower-than-expected tariff increases/material roll-backs. 2) Higher-than-expected regulatory payments for license renewal/excess spectrum. 3) Slower-than-expected turnaround in Bharti's African operations.

VALUATION (FISCAL-YEAR BASIS)

	P/E (X)			EV/EBITDA (X)			Div Yield	
	12E	13E	14E	12E	13E	14E	12E	13E
Bharti	26.2	15.5	10.8	9.0	7.1	5.6	0.3%	0.5%
Idea	42.6	21.9	13.9	8.1	6.2	5.1	0.0%	0.0%

Source: FactSet, Goldman Sachs Research estimates.

SOTP VALUATION

(Rs/share)	Bharti	Idea
Core value	436	99
Tower value	50	24
Total	486	122
Excess spectrum	(11)	(5)
License re-bidding	-	(6)
Target Price	475	111

Source: Goldman Sachs Research estimates.

TRAI: Telecom Regulatory Authority of India;
DoT: Department of Telecommunications;
TC: Telecom Commission

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Revisiting fundamentals: Adding Bharti to Conviction Buy List

We add Bharti to our Conviction Buy List as we consider it to be the operator best positioned to benefit from the improving regulatory environment and declining competition. Our revised 12-m SOTP-based target price of Rs475 (up 11%) implies 22% potential upside from current levels. We also reiterate our Buy rating on Idea, despite risks associated with 9 license cancellations, as even after penalizing the company with incremental payment for re-acquiring spectrum, there is 18% potential upside to our new 12-month SOTP-based target price of Rs111.

License cancellation structurally positive for incumbents

Competition to decline, even after affected operators re-bid: We believe any potential license cancellation of new entrants would reduce competition. Even if the new entrants rebid again to acquire spectrum, their financial position would be weaker, in our opinion, thus giving bargaining power to operators like Bharti/Vodafone to raise tariffs. We expect incumbents like Bharti and Idea (in their strong circles) to continue to gain revenue market share at the expense of new operators.

Downside risk to potential regulatory penalty (related to excess spectrum pricing): In addition, we see downside risk to regulatory payments related to excess 2G spectrum pricing for Bharti/Idea if the Telcos commission/TDSAT decides to use the price determined in auction rather than TRAI determined prices. We believe any price determined in a potential 2G auction may be lower than TRAI's 2G excess spectrum pricing (Rs11/Rs5 for Bharti/Idea), as the demand for 1800 MHz spectrum is relatively lower and the new entrants are cash-constrained to be aggressive in the bidding process. We do not yet capture this potential positive in our target prices.

Exhibit 1: Head to head valuation: Bharti not inexpensive but offers strong EBITDA/EPS growth

	Bharti			Idea		
	12E	13E	14E	12E	13E	14E
P/E (X)	26.2	15.5	10.8	42.6	21.9	13.9
EV/EBITDA (X)	9.0	7.1	5.6	8.1	6.2	5.1
FCF Yield	0.6%	6.7%	9.0%	0.6%	3.8%	6.4%
CAGR (FY12E-15E)						
Revenue		14%			16%	
EBITDA		20%			19%	
Net Profit		42%			59%	

Source: Goldman Sachs Research estimates.

Exhibit 2: SOTP valuation for Bharti/Idea

(Rs/share)	Bharti	Idea
Core value	436	99
Tower value	50	24
Total	486	122
Excess spectrum	(11)	(5)
License re-bidding	-	(6)
Target Price	475	111
CMP (Feb-3 close)	388.60	93.80
% upside	22%	18%

Source: Datastream, Goldman Sachs Research estimates.

We raise our Bharti and Idea estimates (only in incumbent circles)

We raise our Bharti/Idea FY13E-FY14E revenue estimates by 2%-3% to factor in better-than-expected incremental revenue market share (by raising our subs/ARPU estimates), as we expect competition to decline as we expect less intense competition from affected operators. Given operating and financial leverage, this leads to a 5%/7% increase in our FY13E/FY14E EPS for Bharti and 9%/9% increase in our FY13E/FY14E EPS for Idea. For FY13E/FY14E EPS we are now 3%/10% ahead of consensus for Bharti and 4%/8% ahead of consensus for Idea. Our SOTP-based 12-month target price increases by 11% to Rs475 for Bharti and by 4% to Rs111 for Idea. For Idea, our core business value increases by 8%.

Exhibit 3: Bharti: Our new vs. old estimates

Bharti (Rs bn)	New estimates			Old estimates			% Change		
	12E	13E	14E	12E	13E	14E	12E	13E	14E
Revenues	718.0	843.8	968.0	718.0	827.7	939.1	0.0%	1.9%	3.1%
EBITDA	240.9	296.1	362.7	240.9	289.9	351.5	0.0%	2.1%	3.2%
Net profit	56.3	94.9	136.3	56.3	90.3	127.5	0.0%	5.1%	6.9%
TP (Rs)	475			430			10.5%		

Source: Goldman Sachs Research estimates.

Exhibit 4: Idea: Our new vs. old estimates

Idea (Rs bn)	New estimates			Old estimates			% Change		
	12E	13E	14E	12E	13E	14E	12E	13E	14E
Revenues	193.6	238.2	270.2	193.6	231.2	262.3	0.0%	3.1%	3.0%
EBITDA	51.0	65.0	75.7	51.0	62.8	73.2	0.0%	3.4%	3.4%
Net profit	7.3	14.2	22.4	7.3	13.1	20.6	0.0%	8.8%	9.0%
TP (Rs)	111			107			3.5%		

Source: Goldman Sachs Research estimates.

Idea's FY13E/FY14E EPS looks better in a scenario where licenses are cancelled, but we expect Idea to re-bid

Idea's EPS actually increases if its nine licenses are cancelled: As Idea's new circles are EBITDA/EPS loss-making, Idea's P&L without them would have better EBITDA and EPS. Our pro forma numbers suggest a 3%/17% increase in FY13E EBITDA/normalized net income if licenses are cancelled. Even our base case estimate increases by 3.8%, as we had assumed these circles continue to remain loss-making for the next 8-9 years.

Exhibit 5: Impact of loss of license in the 7 circles for Idea

Idea Cellular (Rs mn)	Base-case		Post license cancellation		% Variance	
	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
Revenues	238,246	270,212	228,711	258,954	-4.0%	-4.2%
EBITDA	64,997	75,650	67,054	76,923	3.2%	1.7%
EBITDA margin	27.3%	28.0%	29.3%	29.7%	+204bp	+171bp
Net profit	14,227	22,438	16,679	24,099	17.2%	7.4%
Core value (Rs)	99		103		3.8%	

Source: Goldman Sachs Research estimates.

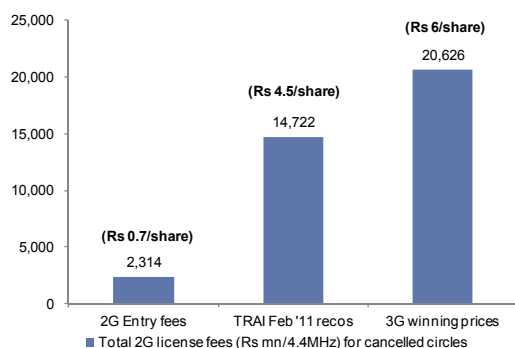
Exhibit 6: Implied value sensitivity to re-bidding cost

Idea (Rs/share)	Does not bid	Re-bid amount same as	
		TRAI recos	3G prices
Business value	121	117	117
Re-bidding cost	-	-4.5	-6.3
Implied value	121	113	111
Upside to CMP	29%	20%	18%

Source: Goldman Sachs Research estimates.

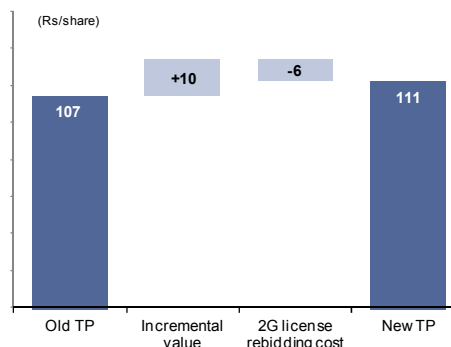
Even after penalizing Idea with rebidding price at 3G price, we get 18% potential upside: However as we consider Idea a long-term committed operator, we expect the company to re-bid for spectrum in the 2G auction (in four months) in these circles. Since it is difficult to forecast the market-determined auction price, we have referenced historical equivalent prices for the nine circles. The three available historical prices are: 1) 2008 2G auction price (Rs0.7/share); 2) TRAI recommended price in Feb 11 (Rs4.5/share); and 3) winning price from 3G auctions (Rs6/share). While we see a higher possibility of the 2G auction price coming in between Rs0.7/share and Rs6/share, for the calculation of our target price we have penalized the company by modeling the 3G auction price as a re-bid price. Even with this assumption, we get 18% potential upside to our price target from current levels.

Exhibit 7: Price for nine-circle spectrum based on historical prices: 2G auction price may be below 3G auction price



Source: DoT, TRAI, Goldman Sachs Research estimates.

Exhibit 8: Arriving at target price: model benefits from easing competition but penalizes for re-bidding



Source: Goldman Sachs Research estimates.

Exhibit 9: 2G/3G Spectrum holding in cancelled licenses

S. no.	Circle	Spectrum holding (MHz)	
		2G (1.8GHz)	3G (2.1GHz)
1	Assam	2 x 4.4	-
2	J&K	2 x 4.4	2 x 5.0
3	Karnataka	2 x 4.4	-
4	Kolkata	2 x 4.4	-
5	North East	2 x 4.4	-
6	Orissa	2 x 4.4	-
7	Punjab	2 x 4.4	2 x 5.0*
8	TN (incl. Chennai)	2 x 4.4	-
9	West Bengal	2 x 4.4	-

* 3G spectrum in Punjab against Spice license, in our view.

Source: DoT, TRAI, CAG, Goldman Sachs Research estimates.

If we assume Idea pays US\$415mn (Rs6/share) as a one-time payment rebid amount in FY13, this would reduce our FY13/FY14 EPS by 4.9%/10.6%. However, net debt/EBITDA only increases from 1.42X to 1.73X in FY13. We do not model this impact in our EPS, but factor in a negative Rs6 impact on our target price.

Exhibit 10: Scenario analysis: Idea wins licenses at 3G winning prices in FY13

Idea (Rs bn)	Rebidding scenario			Base-case			% Change		
	12E	13E	14E	12E	13E	14E	12E	13E	14E
Revenues	193.6	238.2	270.2	193.6	238.2	270.2	0.0%	0.0%	0.0%
EBITDA	51.0	65.0	75.7	51.0	65.0	75.7	0.0%	0.0%	0.0%
Net profit	7.3	13.5	20.1	7.3	14.2	22.4	0.0%	-4.9%	-10.6%
Capex	41.1	59.8	36.0	41.1	39.2	36.0	0.0%	52.6%	0.0%
Net debt/EBITDA	2.04	1.73	1.26	2.04	1.42	0.98			
Net debt/ Equity	0.80	0.79	0.59	0.80	0.64	0.45			

Note: Assuming Idea re-bids for the 2G licenses at 3G winning prices in the seven circles (c. Rs20.6bn). This leads to higher D&A and net int. exp.

Source: Company data, Goldman Sachs Research estimates.

Bharti Airtel (BRTI.BO): Easing competition; reducing regulatory risk benefits yet to reflected; add to CL-Buy

We reiterate our Buy rating on Bharti and add it to our Conviction List as we expect the company operator to benefit from the improving regulatory environment and declining competition.

Source of opportunity

- Expect continued MOU growth and 3G benefits in coming quarters:** We believe competitive intensity will further improve and the incumbent operators will gain incremental revenue market share as new operators further struggle to raise funds/refinance debt and could risk losing focus on strategy in the near-term.
- Declining regulatory risks:** We see downside risk to regulatory payments related to excess 2G spectrum pricing for Bharti if the Telcos commission/TDSAT decides to use the price determined in auction rather than TRAI determined prices. We believe any price determined in a potential 2G auction may be lower than TRAI's 2G excess spectrum pricing (Rs11/share for Bharti), as the demand for 1800 MHz spectrum is relatively lower.
- Estimate about nine percentage point improvement in Africa margins over the next 18 months:** Following our visits to Nigeria/Kenya and conversations with industry participants in other Bharti Africa markets, we have more comfort and clarity on Bharti's strategy on distribution, network enhancement and pricing, and believe that Bharti has made significant improvements in each of these areas. We expect these initiatives to lead to c.9pp expansion in Bharti's Africa margins in the next 18 months. We consider Bharti's strategy to be sound, but believe that macro headwinds and slight slippage in execution vs. our earlier expectations are near-term risks.

Catalysts

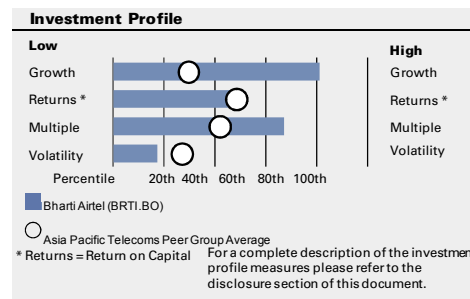
- 1) Further tariff increases and potential increase in ARPU/RPM;
- 2) Lower than TRAI recommended excess spectrum pricing.

Valuation

We increase our FY13E/14E revenue and EPS by 2%-3% and 5%-7%, respectively, as we factor in less intense competition and resultant gain in market share. Accordingly, we raise our 12m SOTP based TP to Rs475 from Rs430. Bharti is trading at FY13E P/E of 15.5X (vs. Asian telcos avg of 15.0X), and offers FY11-14E EPS CAGR of 32% (vs. Asian telcos average of 4%).

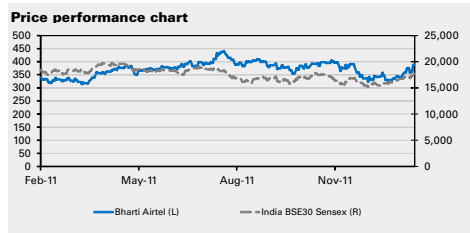
Key risks

- 1) Lower-than-expected tariff increases/material rollbacks;
- 2) Higher-than-expected regulatory payments for license renewal/excess spectrum;
- 3) Slower-than-expected turnaround in Bharti's African operations.



Key data	Current
Price (Rs)	388.60
12 month price target (Rs)	475.00
Market cap (Rs mn / US\$ mn)	1,474,636.0 / 29,999.7
Foreign ownership (%)	44.9

	3/11	3/12E	3/13E	3/14E
EPS (Rs) New	17.54	14.84	25.02	35.94
EPS revision (%)	0.0	0.0	5.1	6.9
EPS growth (%)	(22.2)	(15.4)	68.6	43.7
EPS (dil) (Rs) New	15.94	13.44	24.78	35.73
P/E (X)	22.2	26.2	15.5	10.8
P/B (X)	3.0	2.8	2.4	2.0
EV/EBITDA (X)	9.0	9.0	7.1	5.6
Dividend yield (%)	0.3	0.3	0.5	1.0
ROE (%)	13.3	10.0	16.3	20.0



Share price performance (%)	3 month	6 month	12 month
Absolute	(1.0)	(8.9)	14.4
Rel. to India BSE30 Sensex	(1.7)	(7.2)	19.8

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 2/03/2012

Exhibit 11: Bharti: Summary financials

Ratios based on the close of Feb 3, 2012

Profit model (Rs mn)					Balance sheet (Rs mn)				
	3/11	3/12E	3/13E	3/14E		3/11	3/12E	3/13E	3/14E
Total revenue	594,672.0	717,951.3	843,794.6	968,034.8	Cash & equivalents	16,543.0	14,650.2	14,020.1	43,556.5
Cost of goods sold	(254,151.0)	(313,033.9)	(368,225.6)	(411,529.7)	Accounts receivable	54,929.0	66,246.5	76,673.4	86,634.3
SG&A	(136,536.0)	(164,441.1)	(180,040.6)	(194,435.2)	Inventory	2,139.0	3,013.4	3,358.4	3,637.1
R&D	--	--	--	--	Other current assets	38,466.0	84,498.7	99,309.7	113,932.0
Other operating profit/(expense)	0.0	0.0	0.0	0.0	Total current assets	112,077.0	168,408.7	193,361.6	247,760.0
EBITDA	203,985.0	240,916.1	296,089.3	362,731.1	Net PP&E	651,426.0	713,117.2	759,221.4	810,605.9
Depreciation & amortization	(102,066.0)	(129,096.6)	(136,889.9)	(146,554.1)	Net intangibles	637,317.0	616,711.7	594,361.6	571,745.3
EBIT	101,919.0	111,819.5	159,199.4	216,177.0	Total investments	0.0	0.0	0.0	0.0
Interest income	1,776.9	8,598.1	13,094.2	15,117.5	Other long-term assets	64,244.0	77,092.8	77,092.8	77,092.8
Interest expense	(21,915.0)	(40,630.9)	(35,767.2)	(32,476.5)	Total assets	1,465,064.0	1,575,330.4	1,624,037.3	1,707,204.0
Income/(loss) from uncons. subs.	(73.5)	0.0	0.0	0.0	Accounts payable	249,737.0	247,242.1	275,550.3	298,420.7
Others	1,127.0	(7,306.0)	(1,034.1)	(946.0)	Short-term loans	84,370.0	196,218.0	196,218.0	196,218.0
Pretax profits	82,834.4	72,480.6	135,492.2	197,872.0	Other current liabilities	35,738.0	35,738.0	40,175.7	49,050.9
Income tax	(17,790.0)	(21,882.1)	(40,282.4)	(59,563.2)	Total current liabilities	369,845.0	479,198.2	511,944.0	543,689.6
Minorities	1,475.0	392.0	(1,218.6)	(2,796.4)	Long-term debt	532,338.0	481,725.5	421,725.5	356,725.5
Net income pre-preferred dividends	66,519.4	50,990.6	93,991.2	135,512.4	Other long-term liabilities	46,650.0	51,988.0	41,590.4	37,431.4
Preferred dividends	0.0	0.0	0.0	0.0	Total long-term liabilities	578,988.0	533,713.5	463,315.9	394,156.9
Net income (pre-exceptionals)	66,519.4	56,283.9	94,897.0	136,323.3	Total liabilities	948,833.0	1,012,911.7	975,259.9	937,846.5
Post-tax exceptionals	(6,052.4)	0.0	0.0	0.0	Preferred shares	0.0	0.0	0.0	0.0
Net income	60,467.0	50,990.6	93,991.2	135,512.4	Total common equity	487,668.0	534,247.7	619,387.9	737,171.5
EPS (basic, pre-exception) (Rs)	17.54	14.84	25.02	35.94	Minority interest	28,563.0	28,171.0	29,389.6	32,186.0
EPS (basic, post-exception) (Rs)	15.94	13.44	24.78	35.73	Total liabilities & equity	1,465,064.0	1,575,330.4	1,624,037.3	1,707,204.0
EPS (diluted, post-exception) (Rs)	15.94	13.44	24.78	35.73	BVPS (Rs)	128.57	140.85	163.30	194.35
DPS (Rs)	1.00	1.00	2.00	4.00	Net debt	600,165.0	663,293.3	603,923.4	509,387.0
Dividend payout ratio (%)	6.3	7.4	8.1	11.2					
Free cash flow yield (%)	11.7	0.5	6.4	8.6					
Growth & margins (%)					Ratios				
	3/11	3/12E	3/13E	3/14E		3/11	3/12E	3/13E	3/14E
Sales growth	42.1	20.7	17.5	14.7	ROE (%)	13.3	10.0	16.3	20.0
EBITDA growth	21.0	18.1	22.9	22.5	ROA (%)	5.6	3.4	5.9	8.1
EBIT growth	(3.6)	9.7	42.4	35.8	ROACE (%)	10.2	6.7	9.0	11.9
Net income growth	(32.6)	(15.7)	84.3	44.2	Inventory days	1.9	3.0	3.2	3.1
EPS growth	(32.6)	(15.7)	84.3	44.2	Receivables days	27.8	30.8	30.9	30.8
Gross margin	57.3	56.4	56.4	57.5	Payable days	256.7	289.7	259.1	254.5
EBITDA margin	34.3	33.6	35.1	37.5	Net debt/equity (%)	116.3	117.9	93.1	66.2
EBIT margin	17.1	15.6	18.9	22.3	Interest cover - EBIT (X)	5.1	3.5	7.0	12.5
					Total debt/total capital (%)	54.4	54.7	48.8	41.8
Cash flow statement (Rs mn)					Valuation				
	3/11	3/12E	3/13E	3/14E		3/11	3/12E	3/13E	3/14E
Net income pre-preferred dividends	66,519.4	50,990.6	93,991.2	135,512.4	P/E basic (X)	22.2	26.2	15.5	10.8
D&A add-back	102,066.0	129,096.6	136,889.9	146,554.1	P/B (X)	3.0	2.8	2.4	2.0
Minorities interests add-back	(1,475.0)	(392.0)	1,218.6	2,796.4	EV/EBITDA (X)	9.0	9.0	7.1	5.6
Net (inc)/dec working capital	121,162.0	(14,686.8)	17,536.3	12,630.8	Div yield (%)	0.3	0.3	0.5	1.0
Other operating cash flow	(71,257.6)	(46,358.5)	(31,034.2)	(24,549.3)	Additional metrics	3/11	3/12E	3/13E	3/14E
Cash flow from operations	210,962.4	118,649.9	218,601.9	272,944.4	Total wireline voice rev (Rs mn)	36,324.0	38,627.6	42,014.0	45,097.9
Capital expenditures	(142,253.3)	(164,518.6)	(154,818.4)	(169,554.4)	Total wireline data rev (Rs mn)	--	--	--	--
Acquisitions	(623,720.2)	0.0	0.0	0.0	Total mobile rev (Rs mn)	362,689.0	402,330.5	475,557.7	550,039.5
Divestitures	0.0	0.0	0.0	0.0	Total wireline subscribers (000)	3,296.0	3,665.5	3,944.3	4,224.0
Others	163,022.5	(12,848.8)	0.0	0.0	Total internet subscribers (000)	1,420.6	1,763.1	2,094.4	2,454.2
Cash flow from investments	(602,951.0)	(177,367.4)	(154,818.4)	(169,554.4)	Total mobile subscribers (000)	162,203.5	180,384.5	198,473.7	216,336.7
Dividends paid (common & pref)	(4,437.6)	(4,437.6)	(4,437.6)	(8,875.2)	% prepaid of total mobile subs	96.3	96.5	96.6	96.8
Inc/(dec) in debt	514,810.0	61,235.5	(60,000.0)	(65,000.0)	Mobile blend monthly ARPU (Rs)	208.6	188.1	201.1	212.4
Common stock issuance (repurchase)	0.3	0.0	0.0	0.0	% blend mobile ARPU from data	--	--	--	--
Other financing cash flows	(179,526.1)	26.8	24.1	21.7	Mobile blended MOU/sub (min)	459.2	434.9	448.3	458.2
Cash flow from financing	330,846.6	56,824.7	(64,413.5)	(73,853.5)	Mobile monthly blend churn (%)	--	--	--	--
Total cash flow	(61,142.0)	(1,892.8)	(630.1)	29,536.4	Marketing expense/total rev (%)	NM	NM	NM	NM
Free cash flow	144,965.6	7,795.7	95,851.7	128,885.3	Mobile capex/mobile rev (%)	16.2	15.5	15.8	15.8
					Wireline capex/wireline rev (%)	22.1	40.9	28.8	27.3

Note: Last actual year may include reported and estimated data.

Source: Company data, Goldman Sachs Research estimates.

Source: Company data, Goldman Sachs Research estimates.

Idea Cellular (IDEA.BO): Despite higher re-bidding price, Idea offers 18% upside; reiterate Buy

We reiterate our Buy rating on Idea even after potential license cancellation notice for nine circles as we expect the easing competitive environment in its incumbent circles to more than offset an increase in re-bidding costs in its new circles.

Source of opportunity

- Solid execution to continue.** We expect Idea to continue to gain revenue market share as new operators face difficulties with incremental funding, thereby rendering more bargaining power to incumbents and providing further room to incumbents for further tariff hikes. We note that Idea has shown a gradual increase in revenue market share from 12.7% in 3QFY10 to 14.0% in Sep 2011, led by solid execution and improving scale, in our view.
- Expect strong growth to continue resulting in scale benefits/margin improvements.** We expect Idea to show strong revenue/EBITDA/EPS CAGR of 21%/27%/36% for FY11E-FY14E led by healthy subs additions and stable tariffs. We expect Idea to show a 390bps improvement in EBITDA margins led by scale benefits.
- Valuations not expensive in the context of its growth:** Idea trades at FY13E EV/EBITDA of 6.2X (Asian telcos avg of 6.7X) and offers FY12-14E EPS CAGR of 75% (Asian telcos average of 8%).

Catalysts

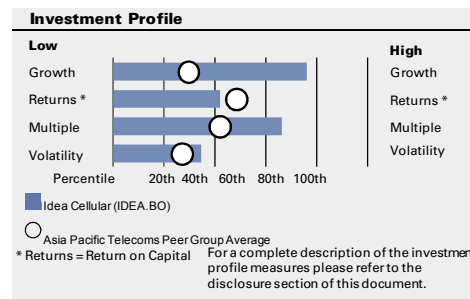
- Continued increase in revenue market share and strong subs additions;
- Further improvement in ARPU/RPM;
- Lower than TRAI recommended excess spectrum pricing.

Valuation

We revise our 12-month SOTP-based target price to Rs111 from Rs107 as we raise our FY13E-FY14E EPS by 9%/9% to factor in easing competitive environment in Idea’s incumbent circles. We also factor in a one-off impact of Rs6/share (in line with winning 3G auction price) related to re-bidding for licenses. Idea currently trades at 6.2X FY13E EV/EBITDA (vs. Asian telcos average of 6.7X), and offers 28% yoy EBITDA CAGR in FY13E (vs. 7% for Asian telcos).

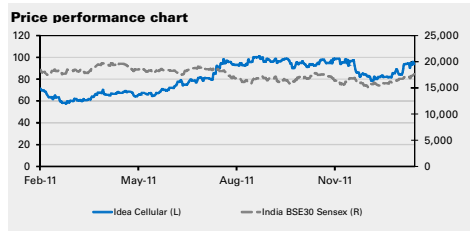
Key risks

- Higher-than-expected bidding costs in auction;
- Higher-than-expected regulatory costs.



Key data	Current
Price (Rs)	93.80
12 month price target (Rs)	111.00
Market cap (Rs mn / US\$ mn)	309,631.9 / 6,299.1
Foreign ownership (%)	36.3

	3/11	3/12E	3/13E	3/14E
EPS (Rs) New	2.76	2.36	4.35	6.79
EPS revision (%)	0.0	0.0	8.5	9.0
EPS growth (%)	(4.2)	(14.8)	84.8	56.0
EPS (dil) (Rs) New	2.79	2.20	4.28	6.74
P/E (X)	33.9	39.8	21.5	13.8
P/B (X)	2.5	2.4	2.2	1.9
EV/EBITDA (X)	8.5	8.1	6.2	5.1
Dividend yield (%)	--	--	--	0.5
ROE (%)	7.6	5.8	10.4	14.6



Share price performance (%)	3 month	6 month	12 month
Absolute	(3.1)	(1.3)	31.6
Rel. to India BSE30 Sensex	(3.8)	0.6	37.9

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 2/03/2012

Exhibit 12: Idea: Summary financials

Ratios based on the close of Feb 3, 2012

Profit model (Rs mn)	3/11	3/12E	3/13E	3/14E	Balance sheet (Rs mn)	3/11	3/12E	3/13E	3/14E
Total revenue	154,384.0	193,597.2	238,246.4	270,212.0	Cash & equivalents	14,777.0	21,283.5	33,081.3	51,202.4
Cost of goods sold	(83,025.6)	(101,672.9)	(123,476.0)	(137,937.5)	Accounts receivable	5,797.4	5,333.9	6,564.1	7,444.8
SG&A	(34,100.0)	(40,938.6)	(49,773.4)	(56,624.0)	Inventory	667.9	837.5	1,030.7	1,169.0
R&D	--	--	--	--	Other current assets	27,818.0	29,075.8	35,781.5	40,582.3
Other operating profit/(expense)	0.0	0.0	0.0	0.0	Total current assets	49,060.3	56,530.7	76,457.6	100,398.5
EBITDA	37,258.4	50,985.7	64,997.0	75,650.5	Net PP&E	150,964.3	164,193.8	172,227.9	176,743.8
Depreciation & amortization	(23,973.4)	(29,787.5)	(34,067.2)	(34,348.3)	Net intangibles	85,188.4	83,255.9	80,371.6	77,487.3
EBIT	13,285.0	21,198.2	30,929.8	41,302.1	Total investments	61.2	61.2	61.2	61.2
Interest income	--	--	--	--	Other long-term assets	0.0	0.0	0.0	0.0
Interest expense	(4,041.6)	(10,192.8)	(10,099.7)	(8,523.6)	Total assets	285,274.2	304,041.7	329,118.4	354,690.9
Income/(loss) from uncons. subs.	0.0	0.0	0.0	0.0	Accounts payable	38,721.1	44,684.2	54,989.7	59,665.5
Others	725.2	(231.4)	91.7	218.4	Short-term loans	2,039.8	2,039.8	2,039.8	2,039.8
Pretax profits	9,968.6	10,774.0	20,921.8	32,996.9	Other current liabilities	1,882.3	2,360.4	2,904.7	3,294.5
Income tax	(981.5)	(3,447.7)	(6,695.0)	(10,559.0)	Total current liabilities	42,643.1	49,084.3	59,934.2	64,999.8
Minorities	0.0	0.0	0.0	0.0	Long-term debt	118,188.2	123,188.2	123,188.2	123,188.2
Net income pre-preferred dividends	8,987.1	7,326.3	14,226.8	22,437.9	Other long-term liabilities	2,142.0	2,142.0	2,142.0	2,142.0
Preferred dividends	0.0	0.0	0.0	0.0	Total long-term liabilities	120,330.2	125,330.2	125,330.2	125,330.2
Net income (pre-exceptionals)	8,917.7	7,836.3	14,481.8	22,590.9	Total liabilities	162,973.3	174,414.6	185,264.4	190,330.0
Post-tax exceptionals	0.0	0.0	0.0	0.0	Preferred shares	0.0	0.0	0.0	0.0
Net income	8,987.1	7,326.3	14,226.8	22,437.9	Total common equity	122,300.8	129,627.1	143,854.0	164,360.9
EPS (basic, pre-exception) (Rs)	2.79	2.37	4.39	6.84	Minority interest	0.0	0.0	0.0	0.0
EPS (basic, post-exception) (Rs)	2.81	2.22	4.31	6.80	Total liabilities & equity	285,274.2	304,041.7	329,118.4	354,690.9
EPS (diluted, post-exception) (Rs)	2.79	2.20	4.28	6.74	BVPS (Rs)	37.05	39.27	43.58	49.79
DPS (Rs)	0.00	0.00	0.00	0.50	Net debt	105,451.0	103,944.5	92,146.7	74,025.6
Dividend payout ratio (%)	0.0	0.0	0.0	7.4					
Free cash flow yield (%)	(18.7)	0.6	3.8	6.4					
Growth & margins (%)	3/11	3/12E	3/13E	3/14E	Ratios	3/11	3/12E	3/13E	3/14E
Sales growth	24.5	25.4	23.1	13.4	ROE (%)	7.6	5.8	10.4	14.6
EBITDA growth	11.0	36.8	27.5	16.4	ROA (%)	3.5	2.5	4.5	6.6
EBIT growth	(1.1)	59.6	45.9	33.5	ROACE (%)	6.0	6.5	9.1	12.0
Net income growth	(5.8)	(18.5)	94.2	57.7	Inventory days	2.6	2.7	2.8	2.9
EPS growth	(8.7)	(21.0)	94.2	57.7	Receivables days	12.4	10.5	9.1	9.5
Gross margin	46.2	47.5	48.2	49.0	Payable days	169.6	149.7	147.3	151.7
EBITDA margin	24.1	26.3	27.3	28.0	Net debt/equity (%)	86.2	80.2	64.1	45.0
EBIT margin	8.6	10.9	13.0	15.3	Interest cover - EBIT (X)	3.3	2.1	3.1	4.8
					Total debt/total capital (%)	49.6	49.1	46.5	43.2
Cash flow statement (Rs mn)	3/11	3/12E	3/13E	3/14E	Valuation	3/11	3/12E	3/13E	3/14E
Net income pre-preferred dividends	8,987.1	7,326.3	14,226.8	22,437.9	P/E basic (X)	33.9	39.8	21.5	13.8
D&A add-back	23,973.4	29,787.5	34,067.2	34,348.3	P/B (X)	2.5	2.4	2.2	1.9
Minorities interests add-back	0.0	0.0	0.0	0.0	EV/EBITDA (X)	8.5	8.1	6.2	5.1
Net (inc)/dec working capital	(1,073.9)	5,477.2	2,720.8	(754.2)	Div yield (%)	--	--	--	0.5
Other operating cash flow	0.0	0.0	0.0	0.0	Additional metrics	3/11	3/12E	3/13E	3/14E
Cash flow from operations	31,886.6	42,591.0	51,014.8	56,032.0	Total wireline voice rev (Rs mn)	--	--	--	--
Capital expenditures	(70,666.2)	(41,084.5)	(39,217.0)	(35,979.9)	Total wireline data rev (Rs mn)	--	--	--	--
Acquisitions	0.0	0.0	0.0	0.0	Total mobile rev (Rs mn)	153,328.0	192,428.5	237,161.1	271,256.7
Divestitures	0.0	0.0	0.0	0.0	Total wireline subscribers (000)	--	--	--	--
Others	0.0	0.0	0.0	0.0	Total internet subscribers (000)	0.0	0.0	0.0	0.0
Cash flow from investments	(70,666.2)	(41,084.5)	(39,217.0)	(35,979.9)	Total mobile subscribers (000)	89,503.3	111,180.1	122,880.1	134,565.3
Dividends paid (common & pref)	0.0	0.0	0.0	(1,931.0)	% prepaid of total mobile subs	96.4	96.7	96.8	96.9
Inc/(dec) in debt	41,635.0	5,000.0	0.0	0.0	Mobile blend monthly ARPU (Rs)	166.7	159.8	168.9	175.6
Common stock issuance (repurchase)	9,021.7	0.0	0.0	0.0	% blend mobile ARPU from data	--	--	--	--
Other financing cash flows	0.0	0.0	0.0	0.0	Mobile blended MOU/sub (min)	410.4	371.8	379.3	383.0
Cash flow from financing	50,656.7	5,000.0	0.0	(1,931.0)	Mobile monthly blend churn (%)	--	--	--	--
Total cash flow	11,877.2	6,506.5	11,797.9	18,121.1	Marketing expense/total rev (%)	NM	NM	NM	NM
Free cash flow	(39,504.8)	1,737.9	11,706.2	19,833.7	Mobile capex/mobile rev (%)	24.8	21.3	16.5	13.2
					Wireline capex/wireline rev (%)	NM	NM	NM	NM

Note: Last actual year may include reported and estimated data.

Source: Company data, Goldman Sachs Research estimates.

Source: Company data, Goldman Sachs Research estimates.

Appendix: Sensitivity to wireless revenues and valuation charts

Leverage better for Idea given it is a pure wireless operator: If the competitive environment turns to be better than expected, then we see higher upside for our Idea implied value given that it is a pure wireless operator. Our sensitivity analysis shows that for a 5% better-than-expected increase in wireless revenues, EPS/IMPLIED value for Idea increases by 13%/9% vs. a 7%/5% increase in EPS/IMPLIED value for Bharti.

Exhibit 13: Bharti: Sensitivity to wireless revenue

Bharti (Rs mn, FY13E)	Change in wireless revenues			
	Base-case	+5%	+10%	+15%
Wireless rev (India)	475,558	499,290	523,022	546,755
% vs. base-case	-	5%	10%	15%
Total revenues	843,795	865,372	886,950	908,527
% vs. base-case	-	3%	5%	8%
EBITDA	296,089	304,445	312,801	321,157
% vs. base-case	-	3%	6%	8%
Net profit	94,897	101,111	107,325	113,539
% vs. base-case	-	7%	13%	20%
Implied value (Rs)	475	499	523	548
% vs. base-case	-	5%	10%	15%

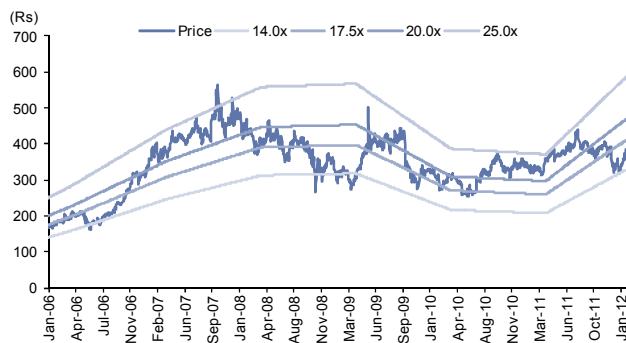
Source: Goldman Sachs Research estimates.

Exhibit 14: Idea: Sensitivity to wireless revenues

Idea (Rs mn, FY13E)	Change in wireless revenues			
	Base-case	+5%	+10%	+15%
Wireless revenues	237,161	248,958	260,948	272,745
% vs. base-case	-	5%	10%	15%
Total revenues	238,246	249,384	260,705	271,842
% vs. base-case	-	5%	9%	14%
EBITDA	64,997	67,815	70,679	73,496
% vs. base-case	-	4%	9%	13%
Net profit	14,227	16,143	18,090	20,006
% vs. base-case	-	13%	27%	41%
Implied value (Rs)	111	121	131	140
% vs. base-case	-	9%	18%	27%

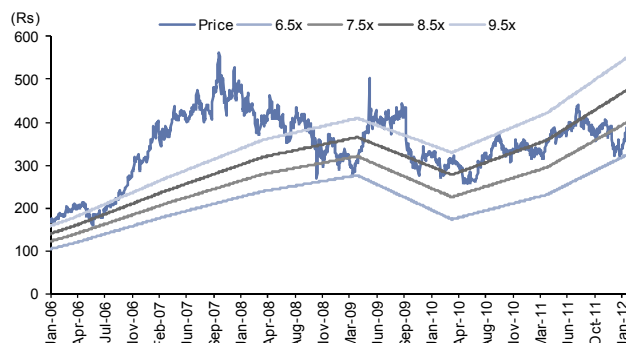
Source: Goldman Sachs Research estimates.

Exhibit 15: Bharti: P/E band chart



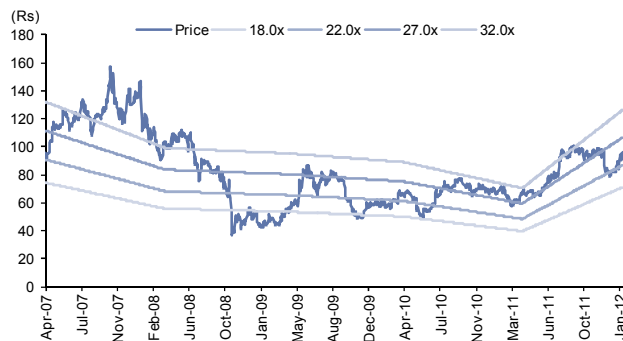
Source: Datastream, Company data, Goldman Sachs Research estimates.

Exhibit 16: Bharti: EV/EBITDA band chart



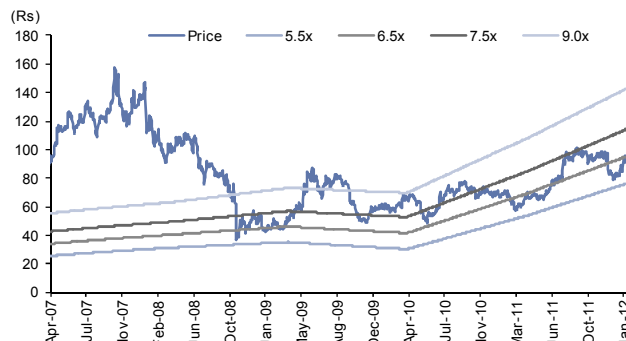
Source: Datastream, Company data, Goldman Sachs Research estimates.

Exhibit 17: Idea: P/E band chart



Source: Datastream, Company data, Goldman Sachs Research estimates.

Exhibit 18: Idea: EV/EBITDA band chart



Source: Datastream, Company data, Goldman Sachs Research estimates.

Disclosure Appendix

Reg AC

I, Sachin Salgaonkar, hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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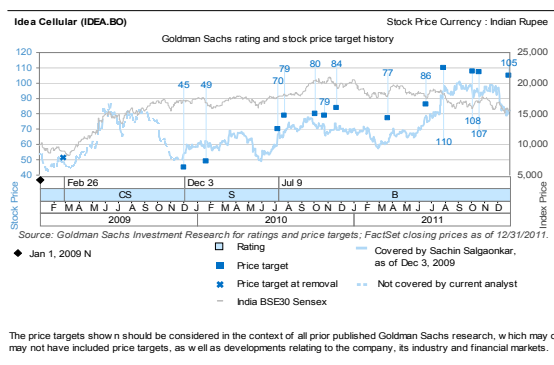
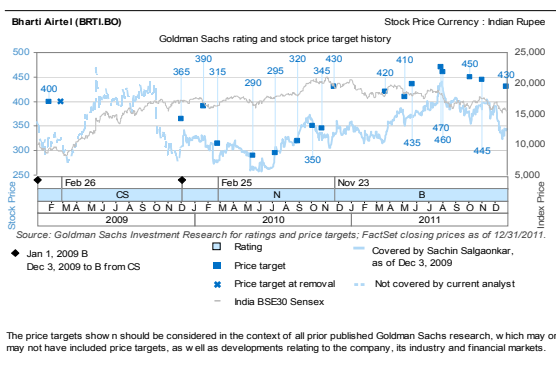
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Price target and rating history chart(s)



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