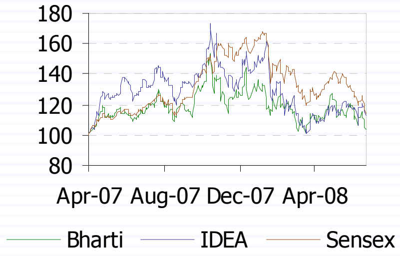
ENAM India Research

Relative Performance



Source: ENAM Research, Bloomberg

Relative Price Performance

(%)	1m	3m	6m	12m
Bharti	(15.0)	(10.0)	(23.0)	(11.0)
RCOM	(25.0)	(19.0)	(43.0)	(21.0)
IDEA	(12.0)	(9.0)	(31.0)	(25.0)
Spice	24.0	114.0	9.0	N.A.

Source: ENAM Research, Bloomberg

Our Current Ratings

	Relative to Sector
Bharti	Neutral
IDEA	Neutral

Indian Telecom

Tower Companies: The Next Value Creators

Financial summary

Company	Price (Rs.)	Mkt cap (USD bn)	P/E (x)		EV/EBITDA (x)		RoCE (%)		RoE (%)		EV/Subs (USD)	Value of tower cos (Rs.)
			FY09E	FY10E	FY09E	FY10E	FY09E	FY10E	FY09E	FY10E		
Bharti	744	32.7	16.4	13.6	10.3	8.2	30.3	30.9	31.9	28.3	444	180
IDEA	94	5.7	18.8	17.7	9.1	8.3	19.2	18.2	30.9	28.2	281	30

Source: Company, ENAM Research; Prices as on July 2nd 2008

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Table of contents

- **Investment Summary** 3
- **Industry Section**
  - Entering the mature growth phase 4
  - Long-term industry cycle 5
  - Revenue returns moderate… 6
  - … as ARPUs decline 7
  - Bharti Case Study 8
  - Infosys: P/E vs. growth 10
- **Companies**
  - Bharti Airtel 13
  - IDEA Cellular 19
  - Tower Companies
    - Indus Towers 25
    - Bharti Infratel (Standalone) 28
  - Regional Valuation: At A Glance 31

Investment summary

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The industry is transitioning from supernormal to mature growth phase

- The next value generators will be the tower companies
  - India is expected to be the 2nd largest wireless market by FY11E with highest monthly additions.
  - We estimate wireless penetration to reach 46% in FY11E, and this will be on the back of telecom infrastructure (ie tower cos)
  - PAT growth in service provider industry will be driven by cost economics
  - While the number of players is likely to move up to 10-12 players by FY09-10E, we believe consolidation is inevitable and the number of players will fall back to the current levels of 5-6 players eventually
- Service players have started looking at International Markets for Topline growth
  - Entry into international/ emerging markets by leading players (EMs have the potential to generate ~1bn subs over the next 3-4 yrs)

However there are some concerns

- Revenues : Increased competition might lead to a fragmented market. It is difficult to have a >-1 MoU elasticity to tariff declines, on a consistent basis
- EBITDA : Could get dented by passive infrastructure charges, increase in spectrum charges and VAS outgo
- PAT : Lower depreciation & interest charges from a lighter balance sheet
- Cash Flows : Higher capex for some players while some large players will become FCF positive

Event drivers

- Domestic markets : Value unlocking in Tower Cos. Embedded value in Towers Cos for listed players will be a one- time trigger for valuations
- International markets : Effective capital allocation in international markets will be important
- P/E de-rating : Could be possible if earnings growth rates do not meet expectations

Recommendation with respect to sector

- Bharti Airtel, Idea Cellular : **Neutral**

Entering the mature growth phase

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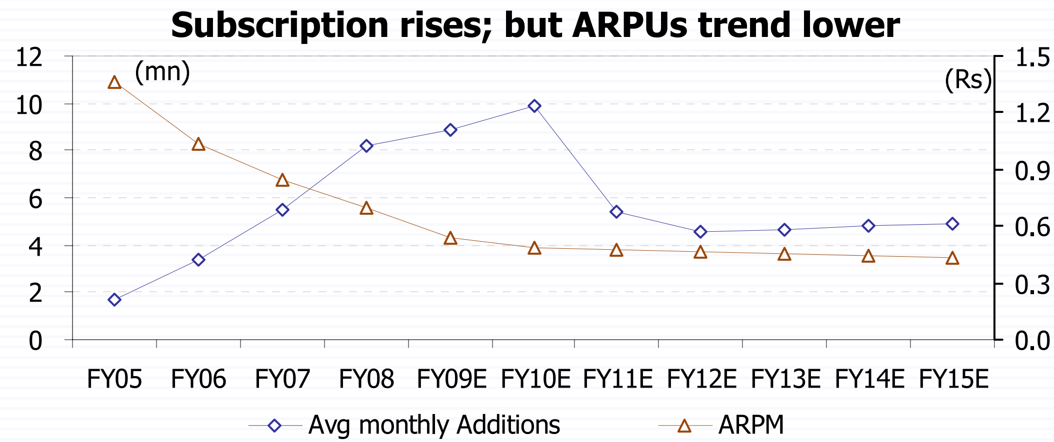


- **2005-2008 : Penetration-Led Growth**
  Subscriber growth rates accelerates ~6.4x. ↓Tariffs compensated by subs addns and ↑MoUs. ↑ in Urban Penetration leads to higher EBITDA % . Super-normal growth rates in Revenues & PAT, EBIDTA Growth > Revenue Growth, **High RoEs**

  Outperfomers : Operators EV/ EBITDA Range: 18 – 22x P/Es: 20 – 25x

- **2008-2011 : Growth driven by cost economies and the rise of the tower industry**
  2G : Incremental Subs Addns at ½ of current ARPUs. Intensifying competition, Subscriber Adds : No more a trigger, VAS revenues becomes strategic. **New Growth Areas** : 3G/ WiMAX, International Mkts (capital re-allocations by players). EBITDA moderates due to rural penetration. A diffused mkt, no business case for new players, **3G** : Commencement & Investment Phase

  Revenue Growth > EBITDA Growth. RoEs/ PE appear reasonable, but risk appetite could be higher. Period of high cash generation begins.

  Outperformers : VAS Players, Infra. EV/ EBITDA Range: 10 - 16x P/Es: 15 – 20x

  Value Unlocking in Tower Cos : One Time event, **Overbidding in 3G / WiMAX/International markets ?**

- **2011-2015 : Industry consolidation**
  Industry growth rates moderate, Industry consolidates from a 10-12 players to a 5-6 players. M&As gain momentum, revenue growth for tower companies tapers off

  EV/EBITDA range: 7 - 10x P/Es: 11 –15x

  A dividend payout story. ↑ in Cash Returns from International markets will depend on whether the Capital Allocation was effective

Long-term industry cycle

New Networks / New Players / New Paper (listed cos)

New Players	:	Entry leads to lower RoIs for Industry (Revenue Growth < Subscriber growth)
Paper supply	:	Listing of Infrastructure & VAS Players ; Mkt Cap of the sector diffused
Existing Players	:	One-time value Unlocking through investments in Tower Cos, moderation in voice business

Telecom Infrastructure and Mobile VAS

The journey begins : FY08-FY11E : Replicating the Service Provider story

Unfavorable return dynamics; Lower economies of scale

Volumes : On decline
Subscribers : To taper post FY10E
MoU Elasticity declines
Lower EBITDA / Capex

Pricing
Price : No longer source of differentiation
VAS is a source of arresting ARPU decline (largely in FY09E & FY10E)

Costs
~5-6% of Service Revenues shift to Passive Infrastructure
⬆ in Subscriber Acquisition Costs
Likely increase in Spectrum Charges positive for Tower Cos

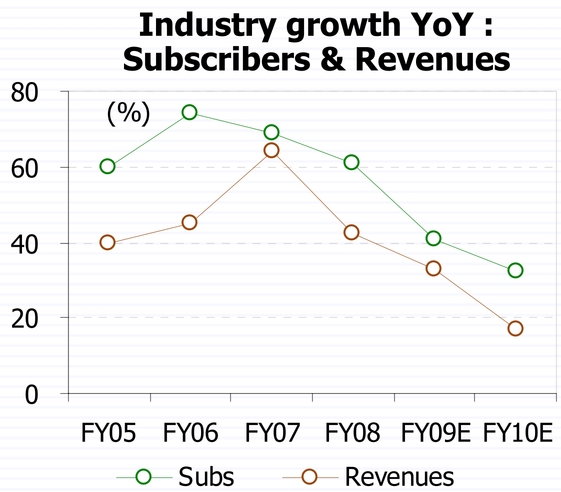
Shock Absorbers

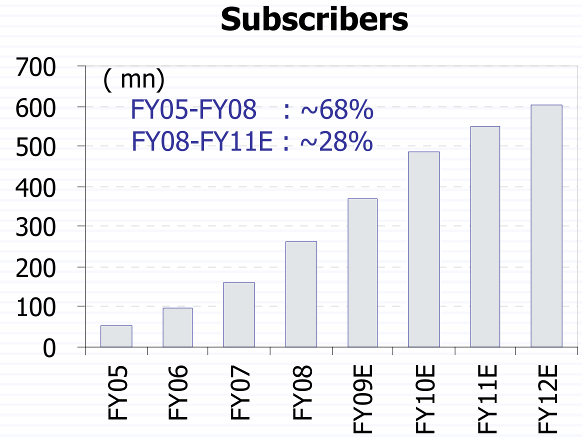
Decline in Govt levies : Unlikely
~23-26% of revenues
On contrary, Govt collection should increase from 3G / new 2G licenses

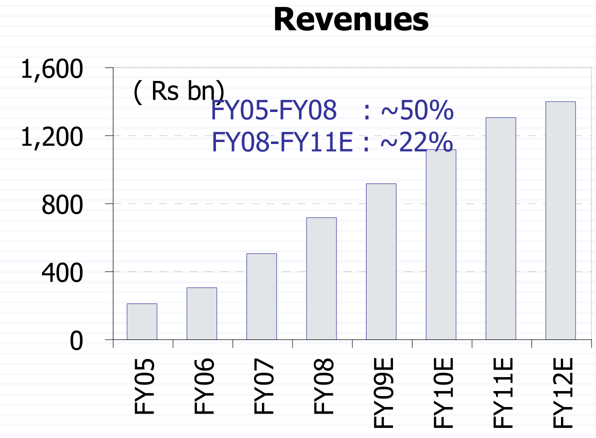
Will new business opportunities provide a possible cushion

3G	:	Addressable market comparatively lower, decoupling for voice services
WiMAX	:	A rural, price-sensitive, service offering
Spectrum Trading	:	Incumbents to benefit (given > 10MHz)

Revenue returns moderate…





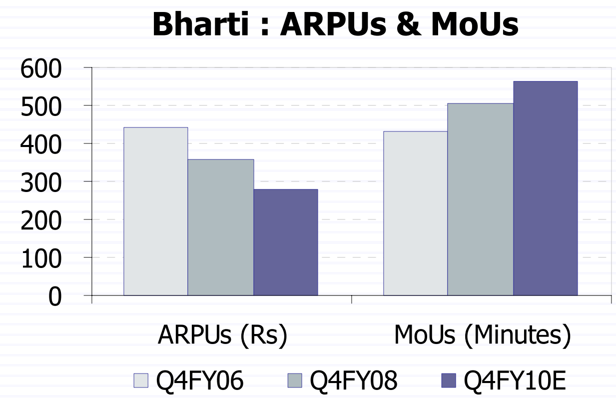


Source : COAI, AUSPI, TRAI, Company, ENAM Research

Diminishing Revenue Growth YoY = F (⬇ARPMs , stabilizing MoUs, peaking subscriber adds MoM)

- **FY11E :** Indian Wireless to be a ~USD 36bn Industry (@INR/ USD= 36.7) v/s ~USD 18bn in FY08 (@INR/USD = 40.3)

- **Revenue composition: Circle B & C will dominate growth rates**
  - FY11E All India Penetration : 46.1% v/s 22.8% in FY08
  - FY11E Penetration :
    - Metros : 83.1% v/s 79.6% in FY08
    - Circle A : 51.3% v/s 26.9% in FY08
    - Circle B : 43.1% v/s 18.8% in FY08
    - Circle C : 36.1% v/s 11.7% in FY08

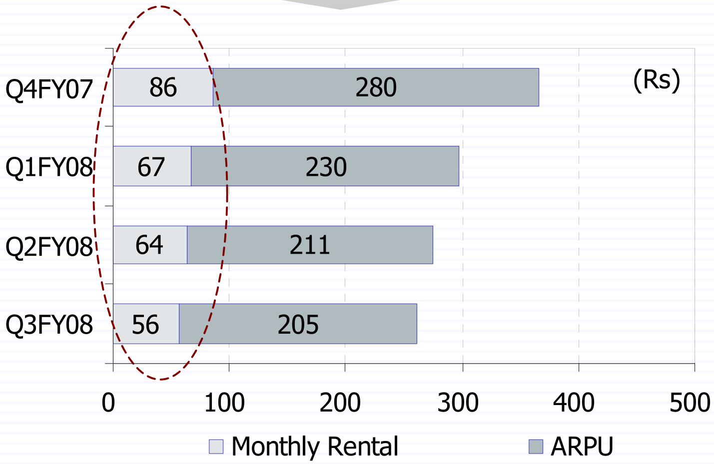


	CQGR -Q4 (%)	
	FY06-FY08	FY08-FY10E
ARPUs	(2.63)	(2.96)
MoUs	2.05	1.24

… as ARPUs decline

GSM revenues net of pass through : USD3,033mn

- 21.3% / 56.1% — **Rental , Processing and Call Charges** USD 2,348mn
- 9.8% — **Roaming** USD 297mn
- 4.6% — **SMS** USD 139mn
- 8.2% — **Others** USD 249mn



	Remarks	Movement
Call Charges	1st source of decline due to network ownership by operators/ competition	To decline from Re 1.00 to Rs 0.40 in coming yrs
Monthly Rentals	EBITDA % > Revenue %	As network ownership transfers to Tower Cos, Players now resort to decline in Monthly Rentals
Termination revenues	High source of EBITDA %	Next reform of regulation to stage a decline from present Rs0.30
Roaming Revenues	-	Declined from Rs 2.49 to Re 1. To decline further From Re 1 to Rs0.40
VAS	Key for arresting revenue decline, low penetration - means of differentiation	Declining, as share of TSPs trend lower, over a period of time

Source: TRAI (Performance Indicators), ENAM Research

Eg - Bharti: High MoU elasticity…

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Assumptions

	Q4FY08	Q4FY09E	Q4FY10E
Mobility Business			
Subs Base	62	98	134
% change YoY	-	58.1	36.7
Net Additions/ mth (mn)	-	3.00	3.00
ARPM - Q4 (5% decline)	0.70	0.57	0.47
ARPM - Q4 (7% decline)	0.70	0.53	0.39

Our Expectations

	Q4FY08	Q4FY09E	Q4FY10E
Mobility Business			
Subs Base	62	92	117
% change YoY	-	48.0	27.0
Net Additions per month	-	2.48	2.07
ARPM - Q4	0.70	0.55	0.50
% change QoQ	-	(6.00)	(2.25)
MoU - Q4	507	544	559
% change QoQ	-	1.80	0.67

Source: Company Data (Historical), ENAM Research

Sensitivity analysis w.r.t. to the required QoQ growth rate in MoUs yields:

- Based on a required CQGR of 7-11% in EBITDA from Q1FY09 to Q4FY10 in the wireless business
- Assumptions :
  - Monthly additions are assumed at 3mn per month leading to a subscriber base of ~98mn at FY09-end and ~134mn at FY10-end. This analysis assumes that Bharti's subs additions would be higher than industry growth rates (FY08-FY10E CAGR Bharti – 47.0% and Industry – 36.4%)
  - We have assumed QoQ decline in APRM at 5% and 7% for our consideration. Avg decline in FY08 was 4.7%
  - Range of EBITDA margin is kept between 30 -34%

… yet the expected run-rate is a tad disappointing

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MoUs: Sensitivity to ARPM decline of 5% QoQ

Required CQGR in MoU		Required CQGR - EBITDA 7%	8%	9%	10%	11%
EBITDA (%)	34%	2.84	3.80	4.76	5.72	6.68
	33%	3.22	4.18	5.15	6.11	7.08
	32%	3.62	4.59	5.55	6.52	7.49
	31%	4.03	5.00	5.97	6.95	7.92
	30%	4.46	5.43	6.41	7.39	8.36

Source: Company Data (Historical), ENAM Research

MoUs: Sensitivity to ARPM decline of 7% QoQ

Required CQGR in MoU		Required CQGR - EBITDA 7%	8%	9%	10%	11%
EBITDA (%)	34%	5.05	6.03	7.01	7.99	8.97
	33%	5.44	6.42	7.41	8.40	9.38
	32%	5.85	6.83	7.82	8.81	9.80
	31%	6.27	7.26	8.25	9.25	10.24
	30%	6.70	7.70	8.70	9.69	10.69

Source: Company Data (Historical), ENAM Research

Bharti: QoQ Performance (historical)

	Q4FY06	Q4FY08	CQGR
Subs Addns (mn)	19.6	62.0	15.5
ARPM (Rs.)	1.0	0.7	(4.6)
MoU (mins)	431	507	2.1

- **In comparison to the historical trend, a required CQGR of ~3% to 11% in MoUs seems difficult**
- **Our expectations are a CQGR of 8.2% in the subscriber base and 4.1% decline in ARPMs**
- **Given the expected disappointment in MoUs, we expect multiples to contract**
  - From present EV/ EBITDA multiple of 10.3xFY09E & 8.2xFY10E
  - From present P/E of 16.4xFY09E & 13.6xFY10E

Case study: Infosys: P/E vs. growth

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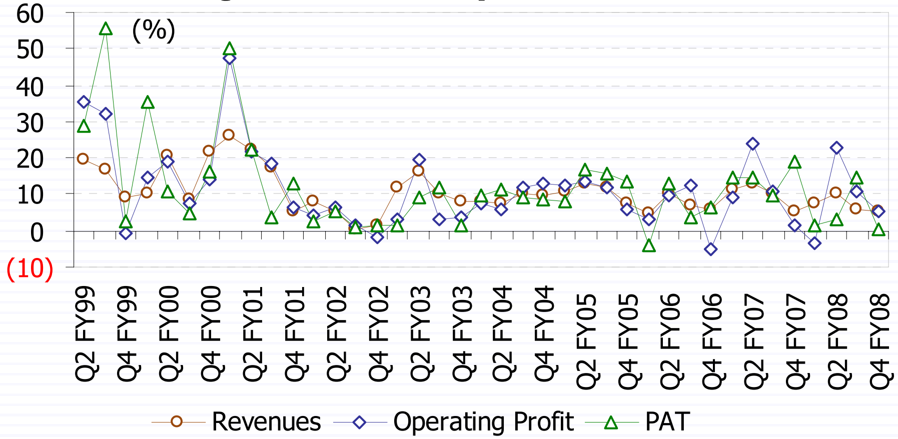
CQGR charts : Topline, OPBDIT, PAT



Infosys – P/E chart

- **Financial performance**
  - **Topline and PAT** :
    - Infosys CQGR growth in topline was higher at 16% from Q1FY1999 to Q4FY2001.
    - Lower QoQ growth rates (~8.7% in Q1FY02-Q4FY05 and ~8.3% in Q1FY06-Q4FY08) were led by decline in pricing and volume growth
    - Decline in growth rates impact the investor sentiment disproportionately and leads to a P/E de-rating and underperformance
    - **Infosys P/E declined from its peak of 144x in FY2000 to 13x in FY2003 and now 17x**

CAGR growth rate

	Q1FY99-Q4FY01	Q1FY02-Q4FY05	Q1FY06-Q4FY08
Topline	16.0%	8.7%	8.3%
Operating Profit	18.9%	7.7%	8.6%
PAT	20.8%	8.1%	8.9%

Note: CQGR is under US GAAP to eliminate the impact of foreign currency fluctuations
Source: Company Data, Bloomberg, ENAM Research

Companies

Change in Demand Dynamics

Telecom service providers

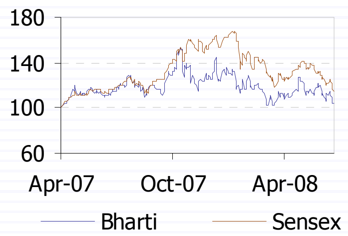
- Telecom infrastructure companies
  Telecom equipment players
- Mobile VAS players

Stock Data

No. of shares	: 1,898m
Market cap	: Rs.1,413bn
52 week high/low	: Rs 1149/ Rs 688
Avg. daily vol. (6mth)	: 4.0mn shares
Bloomberg code	: BHARTI IB
Reuters code	: BRTI.BO

Shareholding (%)		Mar-08	QoQ chg
Promoters	:	65.9	0.0
FIIs	:	25.0	(0.3)
MFs / UTI	:	2.1	(0.0)
Banks / FIs	:	2.4	0.3
Others	:	4.6	0.0

Relative Performance



Source: ENAM Research, Bloomberg

Bharti Airtel

Rs 744

Relative to Sector: **Neutral**

Target Price: Rs 819
Tower Cos : Rs 180
Potential Upside: 10% (Excl Tower Cos)
Potential Upside: 34% (Incl Tower Cos)

Continues its market leadership

Financial summary

Y/E March	Sales (Rs mn)	EBITDA (Rs mn)	PAT (Rs mn)	Consensus EPS* (Rs.)	EPS (Rs.)	Change (YoY %)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)
2007	185,195	74,506	42,571	-	22.5	88	33.1	37.0	30.4	19.5
2008	270,250	113,715	67,009	-	35.4	57	21.1	36.9	30.9	13.2
2009E	339,388	133,174	86,128	44.6	45.5	29	16.4	31.9	30.3	10.3
2010E	414,790	159,902	103,959	54.9	54.9	21	13.6	28.3	30.9	8.2

*Source: *Consensus broker estimates, Company, ENAM estimates; ; Prices as on July 2nd 2008*

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Bharti: Ability to withstand rising competition

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- **Increasing competition hampers super-normal growth rate**
  - Entry of new players accentuates tariff declines
    - Leadership will be at the cost of low ARPUs. Present market share 24.04% (May 2008)

- **Increased cost of business might impact EBITDA margin**
    - Likelihood of increase in spectrum charges
    - Higher penetration in low realization circles in Circle B and C that constituted 47% of Bharti's subscriber base & 57% of its net additions in May 2008. Bharti has 35% market share in Circle C v/s 24% on all - India basis

- **Embedded value in tower cos to provide valuation upside**
  - Bharti Infratel to leverage on investments in telecom infrastructure
    - Value of Indus Towers (90% of 42% stake) → Rs 121 per share (Higher Value from existing portfolio of 70,000 towers at Rs 86)
    - Value of standalone Bharti Infratel → Rs 58 per share
    - Indus Towers to command premium valuations : Higher tenancy ratio in the industry, presence in 16 circles with high ARPUs, valuation upside from the possible addition of 7 circles and likely transfer of 3G know-how from Vodafone

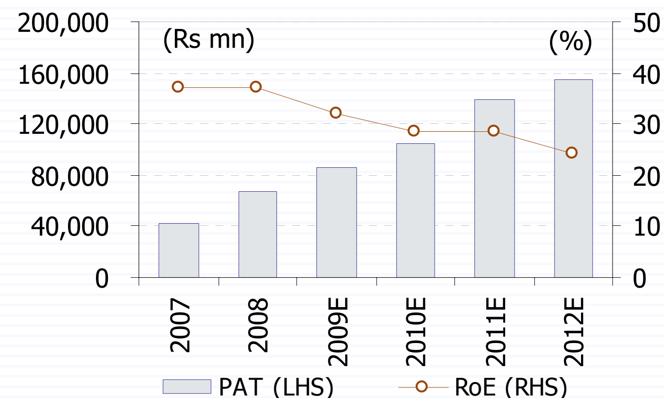
- **Valuation**
  - Bharti to become FCF positive in FY09E.
  - Rating : Sector **Neutral.** Target price **Rs 819** (excluding tower co value of Rs 180)

Increased cost of business

Topline	EBITDA
▪ Lower ARPUs driven by intense competition ▪ ⬆ penetration in low ARPU circles	▪ ~6% shift to passive infrastructure ▪ Likelihood of increase in spectrum charges (expected decline in EBITDA margin by ~1.0%/2.5% wrt to TRAI/DoT recos)

Could partly be offset by decline in variable license fees

PAT ⬆, But RoE on decline



Source: Company, ENAM Research

Valuation summary

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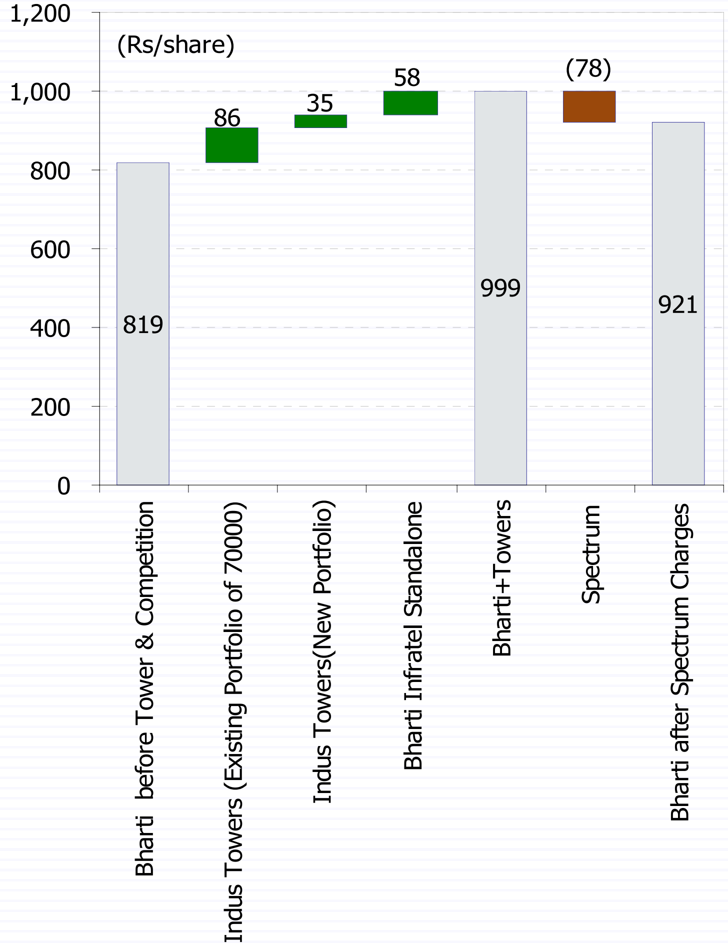
Tower companies offer a valuation upside



Source: ENAM Research

Valuations (excluding Tower Cos)

	FY07	FY08	FY09E	FY10E
Valuns at Our Target Price	819	819	819	819
Market Cap (USD mn)	36,550	36,550	36,550	36,550
EV (USD mn)	37,683	38,645	35,554	34,037
EBITDA (USD mn)	1,752	2,674	3,131	3,760
Present Subscribers (mn)	62.0	62.0	62.0	62.0
Prospective Susbcribers (mn)	-	62.0	91.8	116.5
Market Cap/ Sales (x)	8.4	5.8	4.6	3.7
EV/ EBIDTA (x)	-	14.5	11.4	9.1
EV/ Subscribers (USD)				
Present Subscribers	623	623	623	623
Prospective Subscribers	-	623	421	331

Source: ENAM Research Note: INR/USD 42.53

- **At our target price of Rs 819 excluding tower cos, Bharti trades at 11.4x FY09E and 9.1x FY10E EV/EBITDA**
  - We are confident that Bharti will be able to withstand impending competition and retain pole position, but sector dynamics might lead to a decelerating earnings profile
  - However, the tower business offers a valuation upside (one-time in nature)

Wireless: Competition woes

Subscriber additions to rise, at the cost of ARPUs

- All-India Wireless penetration at 24.2% in May 2008. Scope of higher penetration. India to reach Asian avg by June/July 09. (International average : ~47% ; Asian Average : ~35%)
- Subscriber additions to accelerate as existing players (1) target higher net additions before entry of new entrants, (2) to build up subscriber base for higher spectrum allocation
- Coverage based growth to end in FY09E (~90% population penetration)
- Tariff declines to over-rule subscriber growth

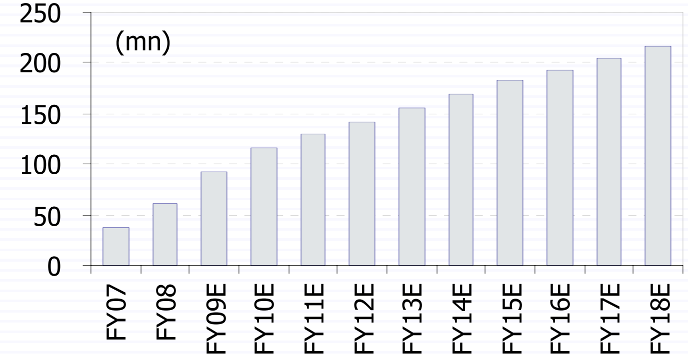
ARPU decline could dent growth rates

- Revenue growth < Subscriber growth
- Topline CAGR : ~23.9% btw FY08-FY10E, based on :
  - Subs : 91.8mn at end-FY09E and 116.5mn at end-FY10E (Implied CAGR FY08-FY10E: 37% for subs could be at risk).
  - ARPU and ARPM to decline at a higher CQGR of ~3.0% and ~4.1% respectively
  - MoUs unlikely to stage a meaningful uptrend (CQGR :~ 1.2%) due to low elasticity in MoUs and low usage subscribers Present MoUs built up on an already high elasticity (MoU CQGR Q4FY06-Q4FY08 : ~2.1%)
- EBITDA CAGR : ~18.6% btw FY08-FY10E, since
  - Subscriber acquisition cost would increase

However, EBITDA growth may differ due to :

- Change in fixed termination charges
- Higher share of on-net MoUs (~54% in Q3FY08 as per TRAI)
- Decline in interconnect charges and variable license fees

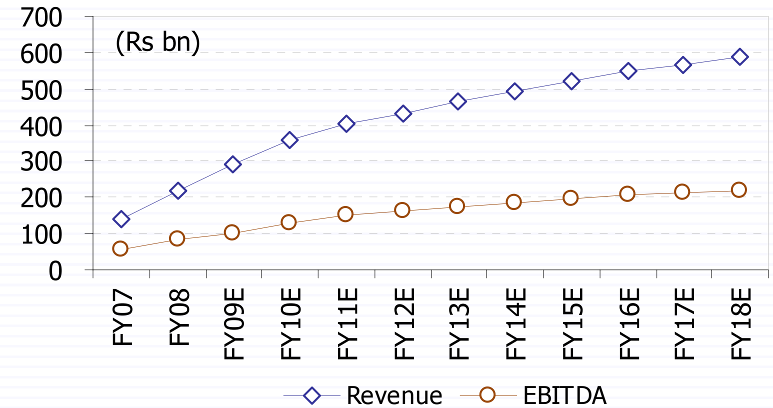
Subscriber



CAGR(%)	Topline	EBITDA	Cash Profits	PAT
FY06-FY08	52.2	61.5	64.9	72.3
FY08-FY10E*	23.9	18.6	21.3	24.6

* FY08-10E – post Infrastructure charges

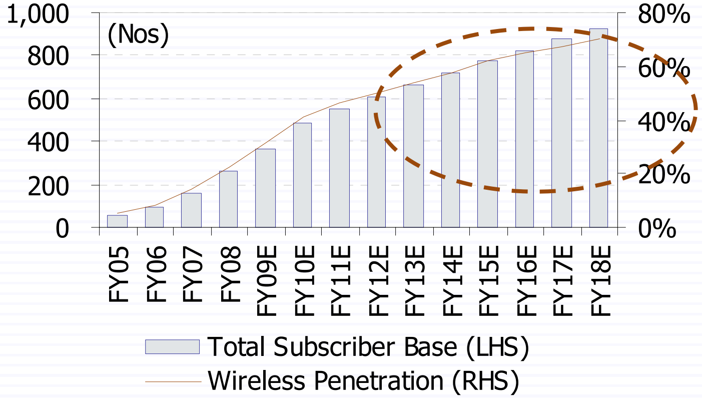
Wireless : Revenues v/s EBITDA



Source: Industry ENAM Research

Market share losses could be an issue...

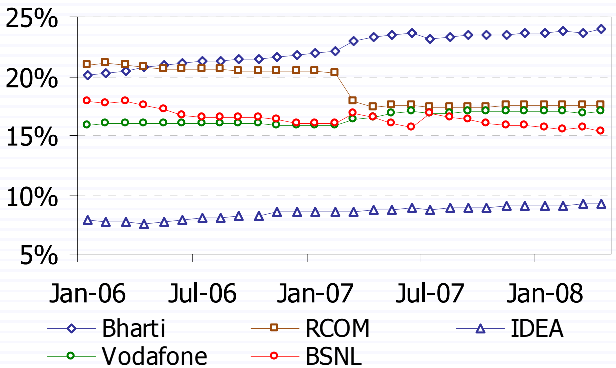
Competition to expand the market base



Source: ENAM Research

Despite competition in the past, the Top 4 players have retained aggregate market share of ~74-75%

- Bharti and Vodafone gained market share at cost of BSNL

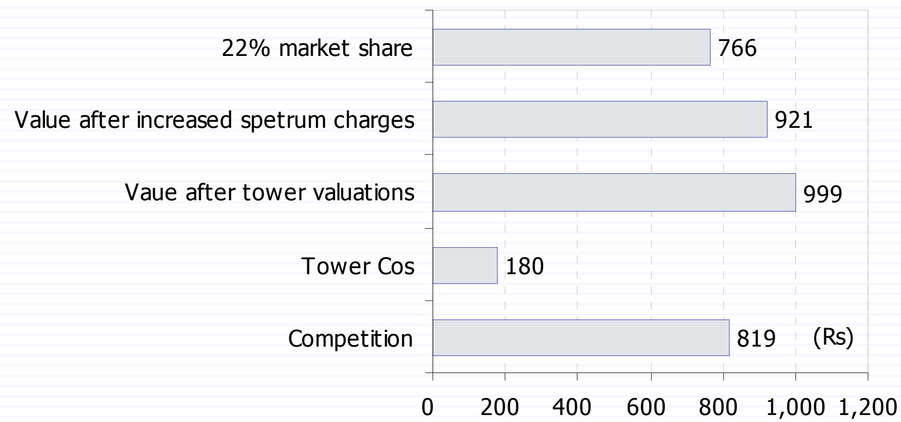


While Bharti is likely to lead the sector, market share loss might be a cause for concern

Sensitivity analysis

- Market Share : 24% market share reduction to 22% leads to ~6% decline in voice business
- ARPU decline : An additional 2% decline in our FY09E ARPUs would lead to a 4% decline in voice business

Mkt Share : 6% decline in voice business



Source: ENAM Research

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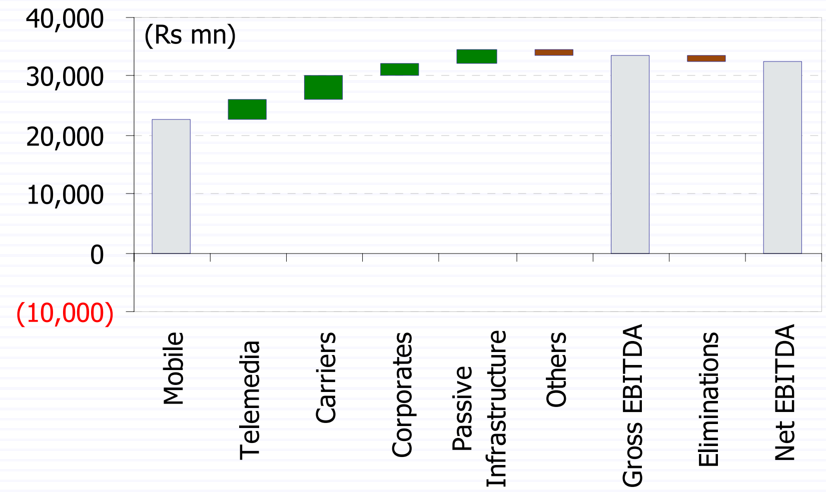
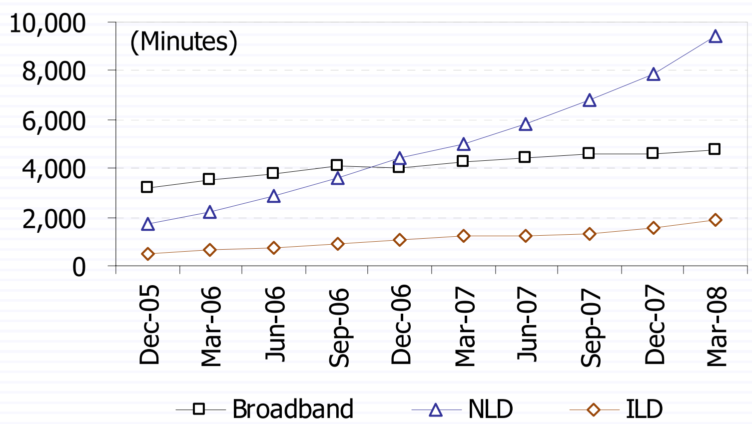
Other business segments

- **Broadband & telephone**
  - Growth led by necessity of broadband access
  - Top 100 cities are key targets
- **Long distance (Enterprise carriers)**
  - Tariffs to remain under pressure due to abolition of ADC charges (0.75% of revenues). Tariffs reduced from Rs 2.49 to Re 1.
  - Competition in long distance segment
  - Incoming ILD calls to have lower realizations from INR appreciation in the future

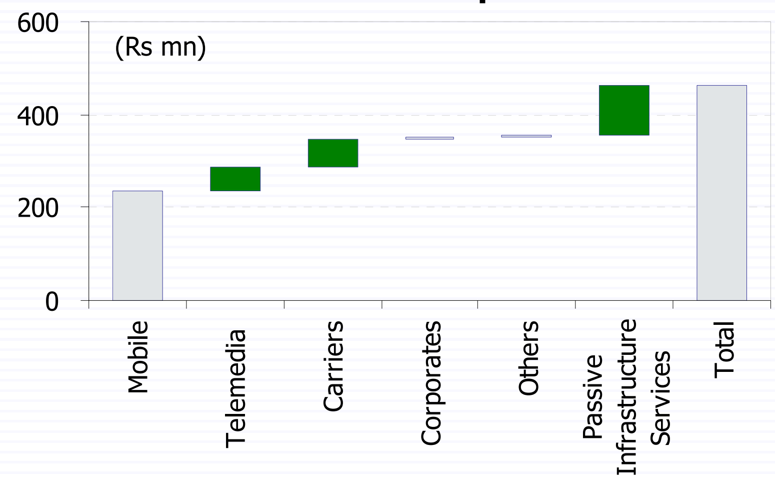
EBITDA break-Up: Q4FY08



Minutes: Broadband, NLD, ILD



Investments break-Up : FY08



Source: Company, ENAM Research

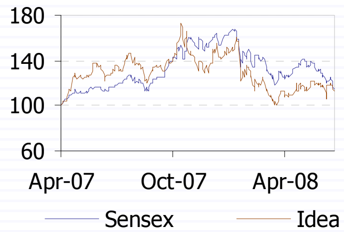
ENAM India Research

Stock Data

No. of shares	: 2,635m
Market cap	: Rs 247bn
52 week high/low	: Rs 161/ Rs 86
Avg. daily vol. (6mth)	: 8.7mn shares
Bloomberg code	: IDEA IB
Reuters code	: IDEA.BO

Shareholding (%)		Mar-08	QoQ chg
Promoters	:	57.7	0.0
FIIs	:	7.7	1.1
MFs / UTI	:	0.4	(0.2)
Banks / FIs	:	2.2	0.4
Others	:	32.0	(1.4)

Relative Performance



Source: ENAM Research, Bloomberg

Idea Cellular

Rs 94

Target Price: Rs 94
Tower Cos : Rs 30
Potential Upside: 32% (Incl Tower)

Relative to Sector: **Neutral**

Bonanza from Towers!

Financial summary

Y/E March	Sales (Rs mn)	EBITDA (Rs. mn)	PAT (Rs mn)	Consensus EPS* (Rs.)	EPS (Rs.)	Change (YoY %)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)
2007	43,664	14,637	5,033	-	1.9	104	49.1	35.7	15.5	18.0
2008	67,200	22,518	10,423	-	4.0	107	23.7	36.4	16.9	13.7
2009E	95,711	33,649	13,112	4.8	5.0	26	18.8	30.9	19.2	9.1
2010E	108,099	39,149	13,971	6.1	5.3	7	17.7	28.2	18.2	8.3

*Source: *Consensus broker estimates, Company, ENAM estimates; ; Prices as on July 2nd 2008*

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July 2, 2008

Investment summary

ENAM

New Circles will increase market share

- Existing Circles : Our expectations
  - Topline : Faces ARPU pressure, Market share loss. Market Share in 11 operating circles higher at 16.2% (May 2008)
  - EBITDA : Decline from passive infrastructure charges. Though, break-even in 3 new operating circles will be a saving grace
  - PAT : Higher Interest charges to dampen net realizations
- New Circles : Our Expectations
  - Topline : To facilitate market share gains on all-India basis
  - EBITDA : Expect decline in interconnect/ roaming charges from FY10E onwards as services commence in Mumbai. However, unlikely to compensate the decline in EBITDA margins
  - PAT : Slower break-even to dent consolidated PAT
  - PAT growth led by cost control initiatives. Growth rate higher than peers

Circle Evaluation

Established Circles	New Circles Operating Currently	Entry in new circles
8	**3**	**12**
Positive Likely delay in spectrum allocation to new entrants	**Positive** Economies of scale	**Positive** Market share gain on an all-India basis
Negative Incumbency at risk	**Negative** Delay in break-even at EBITDA level	**Negative** Entrenched coverage ; Tariff strategy ?

Indus Towers offers embedded value, partial value unlocked

- Value of Indus Towers (16% stake) → Rs 30 Per share after 20% placement to Providence Equity Partners
- Indus Towers to command premium valuation : Higher Tenancy Ratio in the industry, Presence in high ARPU 16 circles, Value upside from likely addition of 9 circles. Likely transfer of 3G know-how from Vodafone

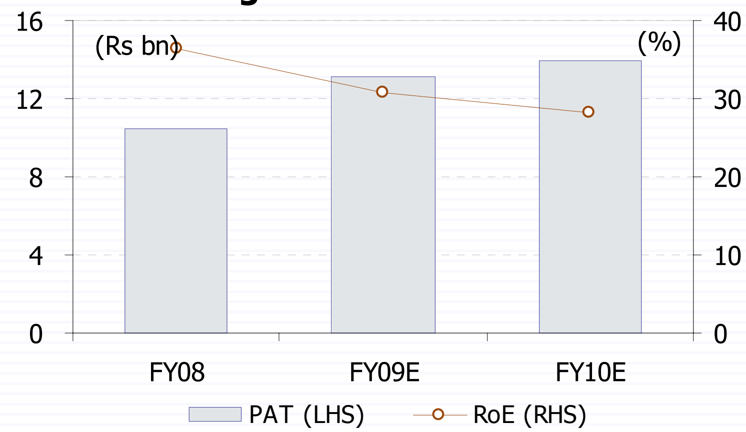
- Higher debt composition to impact equity value

Key risks

- Time/ cost over-runs in new circles

Maintain Neutral: Target price Rs 94 (excluding tower co value of Rs 30)

Existing business : PAT and RoE

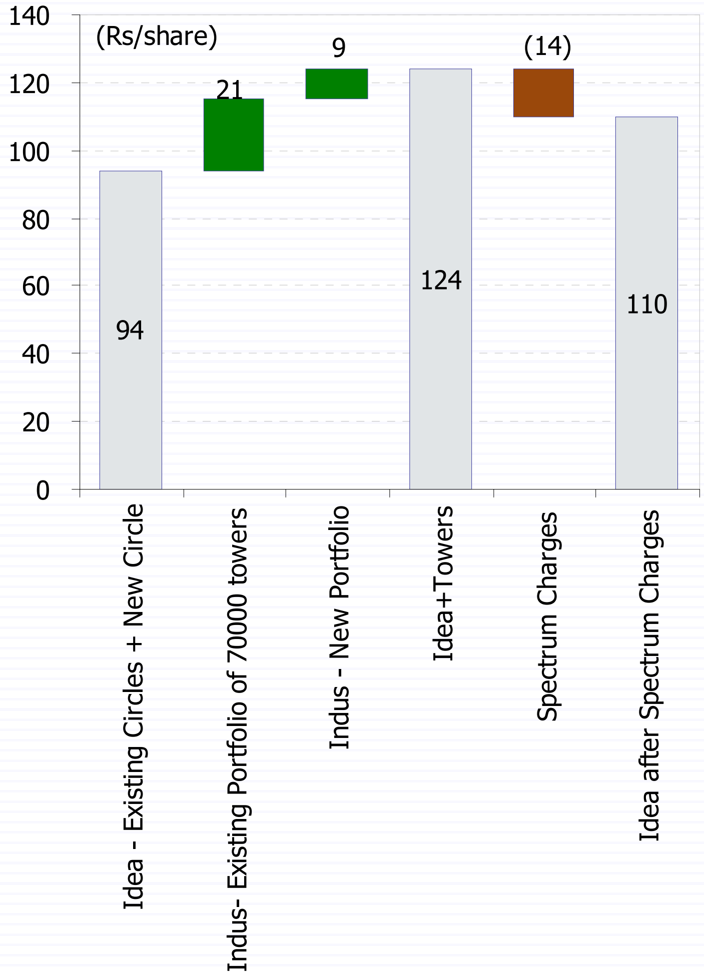


Source: Company, ENAM Research

Valuation summary

ENAM

Tower Company offers a valuation upside



Source: ENAM Research

Valuations (excluding Tower Cos)

(USD mn)	FY07	FY08	FY09E	FY10E
Valun at Our Target Price	94	94	94	94
Market Cap	5,825	5,825	5,825	5,825
EV	6,223	7,270	7,207	7,660
EBITDA before Passive Infra	344	529	791	920
EBITDA after Passive Infra		411	622	729
Present Subscribers	24.0	24.0	24.0	24.0
Prospective Subscribers		24.0	33.0	41.8
P/E (x)	51.0	23.8	18.9	17.7
Market Cap/ Sales (x)	5.7	3.7	2.6	2.3
EV/ EBIDTA (x)				
Before Passive	18.1	13.7	9.1	8.3
After Passive		17.7	11.6	10.5
EV/ Subscribers				
Present Subscribers	243	243	243	243
Prospective Subscribers		243	176	139

Source: ENAM Research

- **Indus Towers has a premium valuation: 16% equity stake valued at Rs 30 per share after 20% equity placement to Providence Equity Partners**
  - Presence in 16 marquee Circles with 83% share to total NSDP
  - Will have ~44% of All-India Subscriber Base
  - High tenancy ratio in the Industry
  - Possibility of adding circles as Idea and Vodafone enter in these circles
- **Recently Idea raised USD 640mn through 20% dilution in ABTL (Bihar circle + 16% investments in Indus Towers)**

Growth higher than peers…

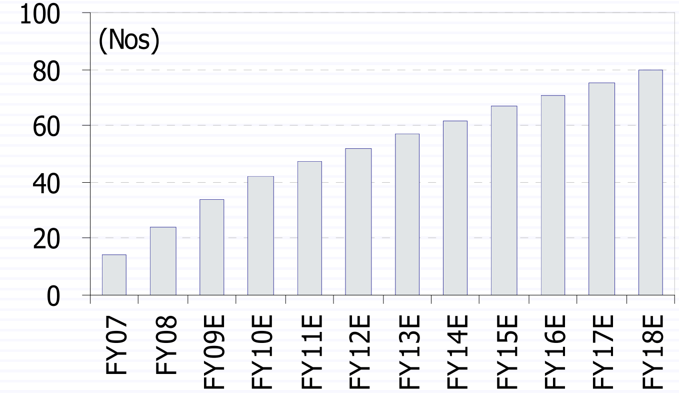
- **Unlike peers, subscriber growth and MoU additions to lead to topline performance**
  - Revenue growth < Subscriber growth
  - Topline CAGR: ~27% btw FY08-FY10E
    - Subscriber growth at ~33%
    - Its incumbency factor would lead to higher ARPU declines than peers : ARPU and ARPM to decline at a higher CAGR of 13.3% and 21.1% respectively
    - Our MoUs CAGR at ~10% could be at risk

- **Earnings profile to stage a downtrend**
  - EBITDA CAGR : ~32% btw FY08-FY10E to be led by
    - Break-even in existing 3 new circles

  However earnings quality on a decline :
    - Subscriber acquisition costs to increase especially in planned new circles
    - Change in fixed termination charges (Rs0.30)

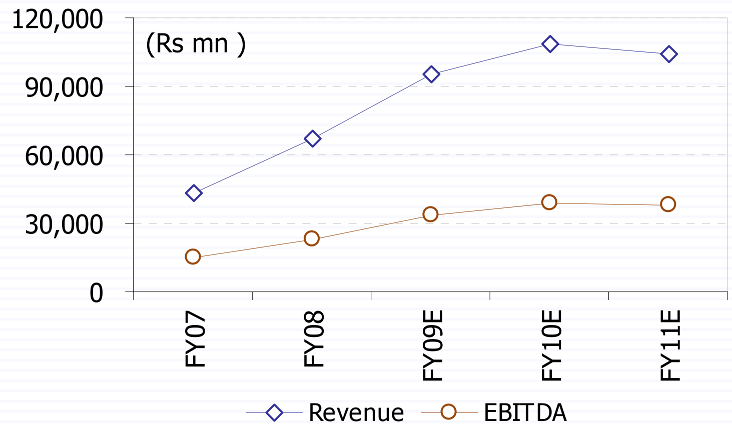
  Could be partly offset by :
    - Higher share of on-net MoUs (~54% in Q3FY08 as per TRAI)
    - Decline in interconnect charges and variable license fees

Idea: Subscriber base (Existing circles)



Source: Industry

Idea (Current Circles) : Revenue and EBITDA



Source: ENAM Research

...but earnings may get affected

ARPU levels comparatively lower than peers

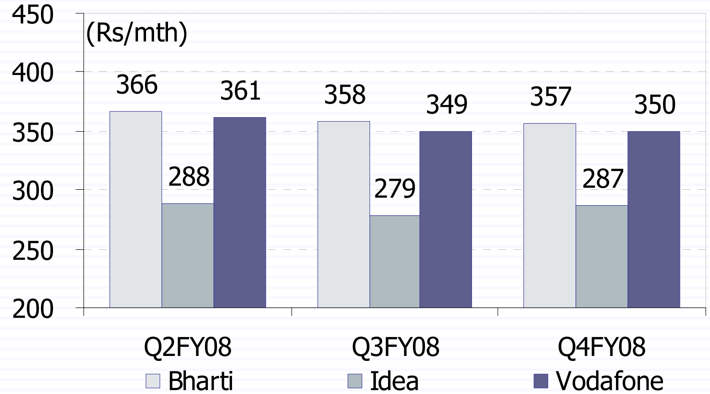
- ARPUs ~20% discount to industry leader (Bharti)
- Quality of subscriber base to decline;
  higher composition of low-ARPU subscribers
- New entrants will target the high-end subscribers of the incumbents given introduction of MNP
- Growth milestones in the sector coming to a halt
  - FY09 : End of coverage led growth. Wireless penetration at ~32%
  - CY10 : 500mn wireless subscriber base will be achieved much faster (Our estimates at 550mn in FY11E)

Tariff declines will be the way forward for market share gains

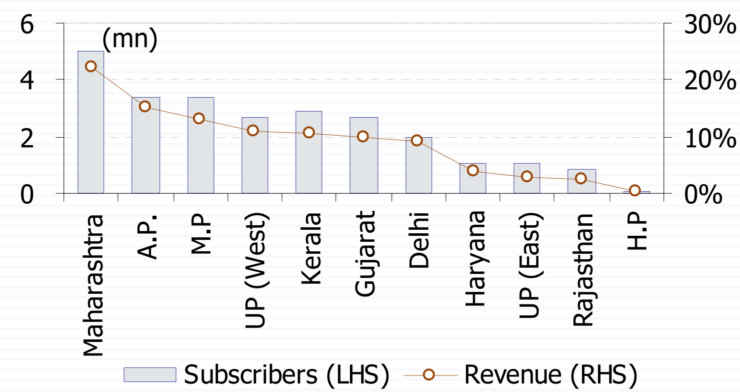
Established circles poised for a setback

- Higher EBITDA from established circles (EBITDA % at 36.8% in Q4FY08) to be under pressure, though may be partly offset by entry in the Mumbai circle
- Pressure on Revenues and EBITDA expected to be higher than peers. ARPU levels lower than peers
- Entry point in new circles to be at much lower ARPU levels. Costs expected to be higher, being in 1800 Mhz spectrum

ARPU QoQ Trend



Revenue dependence in existing circles



Source: ENAM Research

Subscriber additions to accrue at a lower earnings profile

Tower Companies

Shareholding(%)		Mar-08
Bharti	:	42
Vodafone	:	42
Idea	:	16

Indus Towers

Remains "No. 1"

Valuation Summary

Equity Value		
Existing Portfolio (70,000 Towers)	:	USD 10.2bn
Incremental Portfolio	:	USD 4.2bn
Value Per Share		
Bharti	:	Rs 121/ share
Idea	:	Rs 30/ share

Source: ENAM Research, Bloomberg

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July 2, 2008

Company background

Indus Towers

- **Rich portfolio of circles**
  - Rich Portfolio of 16 circles : 4 Metros, 5 Circle A and 7 Circle B. Circles with relatively higher ARPUs
- **Equity ownership**
  - **Bharti : 42%**
  - **Vodafone : 42%**
  - **Idea : 16%**
- **Strong subscriber base (of Anchor Clients)**
  - Subs Base Anchor Tenants : 140.4mn (May 2008)
  - Subs Base Anchor Tenants : 123.5mn (May 2008) in these 16 circles
- **Asset base**
  - Start tower base of 70,000 and FY08–end target of 90,000
- **Milestones in the next 2-3 yrs**
  - Addition of 50,000 towers in next two years
  - Higher tenancy ratio v/s Industry peers
  - Higher ARPU Circles, higher MoUs to keep Indus towers better placed v/s peers
  - Scope for better tenancy ratio over a period of time as Vodafone & Idea enter remaining circles
- **Key challenges**
  - Tri-party Management Team : Bharti, Vodafone and Idea
  - Capacity for external tenants to be low
  - Composition of Towers : GBT v/s RTT

Indus Towers: subscriber base of anchor tenants

Subscribers (mn)	Bharti	Vodafone	Idea
Metros			
Delhi	4	3	2
Mumbai	2	4	0
Chennai	2	1	0
Kolkata	2	2	0
Circle A			
Maharashtra	4	3	5
Gujarat	3	6	3
Andhra Pradesh	7	3	4
Karnataka	7	3	0
Tamil Nadu	4	3	0
Circle B			
Kerala	2	2	3
Punjab	3	2	0
Haryana	1	1	1
Uttar Pradesh (West)	2	3	3
Uttar Pradesh (East)	4	4	1
Rajasthan	4	3	1
Madhya Pradesh	3	0	3
West Bengal	2	3	0
Circle C			
Himachal Pradesh	1	0	0
Bihar	5	0	0
Orissa	2	0	0
Assam	1	0	0
North East	1	0	0
Jammu & Kashmir	1	0	0
All India	**67**	**47**	**26**
Indus	53	47	23
Indus as a %	**80.0%**	**100.0%**	**86.4%**

Source: COAI, AUSPI, TRAI Note : Data as of May 2008

DCF analysis

DCF Assumptions (Existing Portfolio)

	(%)
Assumptions on our DCF Analysis:	
- Terminal growth rate	3.00
- Risk free rate (10-year government bond)	8.25
- Market risk premium	7.00
- Beta (x)	1.00
- Cost of equity	15.25
- Cost of debt	10.00
- Tax rate	34.00
- Debt/Capital	66.67
- Equity/Capital	33.33
- Resultant WACC	9.48
Our DCF Analysis indicates the following range:	
- PV of Terminal CF (for Enterprise Value) (Rs bn)-56%	241
- Total equity Value (Rs bn)	432

DCF Assumptions (Incremental Portfolio)

	(%)
Assumptions on our DCF Analysis:	
- Terminal growth rate	2.50
- Risk free rate (10-year government bond)	8.25
- Market risk premium	7.00
- Beta (x)	1.50
- Cost of equity	18.75
- Cost of debt	10.00
- Tax rate	34.00
- Debt/Capital	75.00
- Equity/Capital	25.00
- Resultant WACC	9.64
Our DCF Analysis indicates the following range:	
- PV of Terminal CF (for Enterprise Value) (Rs bn)-95%	263
- Total equity Value (Rs bn)	178

Source: Company, ENAM Research

- **Indus Towers started with a Tower Base of ~70,000**
- **Existing Portfolio has higher Equity Value of USD 10.2bn (**no present debt assumed)
- **Tenancy Ratio 3**

- **Tenancy Ratio : 2.97 by end-FY15E**
- **Tower Base : 94,000 by end-FY15E**
- **This portfolio may build up tenancy over a period of time**

ENAM India Research

Not-Rated, Not-Listed

Shareholding(%)		Mar-08
Bharti	:	90
Others	:	10

Bharti Infratel (Standalone)

Valuation Summary

Enterprise Value	**:**	USD 3.4 bn
Bharti	**:**	Rs 58 per share

Source: ENAM Research,

Building Momentum

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July 2, 2008

Company background

ENAM

➲ Bharti Infratel

- **Growing portfolio**
  - This tower portfolio caters to subscribers in Circle C that is seeing higher growth
  - Current wireless penetration in Circle C at ~12% v/s national average of ~24%
- **Strong subscriber base**
  - Subs base anchor tenant : 13.3mn (May 2008)
  - Total subs : 43.7mn (May 2008) in these 7 circles
  - Anchor Tenant has ~35% market share in Circle C v/s 24% on all-India basis
- **Asset base :**
  - Current tower base of > 20,000
- **Competition low , at present. Expected to increase with entry of new players especially Vodafone**
- **Risk factors**
  - Presence in low-APRU circles
  - Higher Tenancy Ratio could be a challenge
  - Management attention on Bharti Airtel v/s Bharti Infratel
- **Stakeholders:**
  - Bharti owns ~90% stake in Bharti Infratel
  - Placed 7.5-9% of equity at valuation of USD 10.0-12.5bn in its Tower Cos (i.e ownership of 42% of Indus Towers & 100% of Bharti Infratel standalone)

BITL: Subscriber base of anchor tenant

Subscribers (mn)	Bharti	Vodafone	Idea
Metros			
Delhi	4	3	2
Mumbai	2	4	0
Chennai	2	1	0
Kolkata	2	2	0
Circle A			
Maharashtra	4	3	5
Gujarat	3	6	3
Andhra Pradesh	7	3	4
Karnataka	7	3	0
Tamil Nadu	4	3	0
Circle B			
Kerala	2	2	3
Punjab	3	2	0
Haryana	1	1	1
Uttar Pradesh (West)	2	3	3
Uttar Pradesh (East)	4	4	1
Rajasthan	4	3	1
Madhya Pradesh	3	0	3
West Bengal	2	3	0
Circle C			
Himachal Pradesh	1	0	0
Bihar	5	0	0
Orissa	2	0	0
Assam	1	0	0
North East	1	0	0
Jammu & Kashmir	1	0	0
All India	**67**	**47**	**26**

Source: COAI, AUSPI, TRAI Note: Data as of May2008

DCF Analysis

DCF Assumptions

	(%)
Assumptions on our DCF Analysis:	
- Terminal growth rate	2.50
- Risk free rate (10-year government bond)	8.25
- Market risk premium	7.00
- Beta (x)	1.00
- Cost of equity	15.25
- Cost of debt	10.00
- Tax rate	34.00
- Debt/Capital	25.00
- Equity/Capital	75.00
- Resultant WACC	13.09
Our DCF Analysis indicates the following range:	
- PV of Terminal (for Enterprise Value) (Rs bn)	93
- PV of Terminal Value (%)	65
- Total Equity Value (Rs bn)	123

Source: ENAM Research

- **Key determining factors :**
  - Tenancy Ratio : 2.4 by end-FY15E
  - Tower Base : 39,750 by end-FY15
  - Bharti Infratel (standalone) has a growth model with predictable annuity streams
    - Higher tenancy ratio & fixed operating costs also enable BITL to have a non-linear earnings model
  - Key risks include lower subscriber growth post FY11E, project over-runs between FY08-FY11E, technology developments & introduction of intra-circle roaming

Regional Valuation: At A Glance

International Comparisons	02-Jul-08 CMP USD	Mkt Cap USD mn	P/E (x) 2008 Y	P/E (x) 2009 Y	P/E (x) 2010 Y	EV/EBITDA (x) 2008 Y	EV/EBITDA (x) 2009 Y	EV/EBITDA (x) 2010 Y	ROE (%) 2008 Y	ROE (%) 2009 Y	ROE (%) 2010 Y
Bharti Airtel Limited	17	32,621	19.8	16.6	13.5	11.4	9.2	7.4	39.8	34.6	30.7
Idea Cellular Limited	2	5,711	22.1	19.3	15.3	10.9	8.2	6.5	30.5	28.1	26.2
Telecom Italia Spa	2	38,050	10.2	9.7	9.1	5.1	5.1	5.1	9.3	9.3	9.9
Ntt Docomo Inc	1,519	68,152	14.4	13.5	13.4	4.4	4.3	4.4	11.6	11.7	11.0
Kddi Corp	6,057	27,163	12.4	10.9	9.9	4.4	3.9	3.6	14.4	14.7	14.6
Nippon Telegraph & Telephone	5,047	79,449	13.4	14.5	13.9	4.0	4.3	4.3	7.2	6.3	6.4
Softbank Corp	18	18,924	16.7	24.1	17.0	8.1	7.9	7.3	28.3	26.4	23.3
Telepark Corp	1,255	414	10.5	9.8	8.8	-	-	-	20.2	20.2	19.3
Bt Group Plc	4	31,694	9.1	8.7	8.3	4.5	4.3	4.2	44.9	45.5	43.7
Vodafone Group Plc	3	161,371	13.0	11.5	10.7	8.1	7.3	7.0	9.1	9.9	10.2
Central Telecommunicat-Cls	1	1,010	9.0	7.1	6.5	3.5	3.2	3.0	17.5	20.2	15.7
Sibirtelecom-Cls	0	1,063	8.9	7.4	8.0	3.7	3.3	3.3	19.4	18.2	11.5
Dalsvyaz-T+0	5	466	6.6	6.0	6.2	3.3	3.2	3.1	11.9	15.2	10.7
Southern Telecommunicat-Cls	0	450	12.7	7.6	6.1	4.1	3.8	3.6	12.4	12.0	2.0
Volgatelecom-Cls	5	1,339	8.9	7.1	6.0	3.9	3.5	3.3	13.8	14.5	8.8
Rostelecom-Cls	12	8,708	82.4	51.1	16.4	15.5	14.8	12.8	5.2	8.3	-
North-West Telecom-Cls	1	1,057	11.3	10.4	8.3	3.2	2.9	2.5	7.4	8.2	6.1
Sprint Nextel Corp	9	24,918	97.1	100.5	33.5	5.9	5.9	5.4	(4.4)	(5.1)	(4.2)
At&T Inc	33	195,399	10.8	9.7	8.8	5.8	5.5	5.1	15.5	16.9	17.1
Verizon Communications Inc	36	101,568	13.6	12.3	11.1	4.9	4.5	4.2	14.7	15.8	15.8
America Movil Sab De C-Ser A	3	89,669	14.2	11.0		6.8	6.1	5.7	42.2	67.1	31.0
Deutsche Telekom Ag-Reg	17	74,718	14.3	12.7	11.6	4.6	4.5	4.4	7.6	8.4	9.2
Brasil Telecom Sa-Preference	10	10,561	8.0	7.3	6.1	4.6	4.4	4.2	16.9	20.2	22.5
Tim Participacoes Sa	3	6,654	26.5	13.9	9.0	3.7	3.1	2.7	7.7	13.0	9.6
Telecomunicacoes De Sao Paol	25	13,365	8.4	7.9	7.6	3.6	3.5	3.5	24.4	24.3	24.0
Telemar Norte Leste Sa	59	12,980	9.4	8.9	9.4	3.3	3.2	3.1	18.2	17.6	16.5
Tele Norte Leste Part	27	9,667	8.2	8.0	7.5	3.0	2.9	2.8	19.0	17.0	16.9
Vivo Participacoes Sa	7	9,631	36.8	16.9	12.3	4.7	4.0	3.6	5.0	6.3	11.5
China Telecom Corp Ltd-H	1	42,858	12.3	12.0	10.6	4.2	4.2	4.1	10.2	9.7	9.7
China Communications Servi-H	1	3,974	18.6	15.6	13.8	9.7	8.0	6.9	12.6	14.2	15.1
China United Telecommunica-A	1	20,837	24.6	21.8	21.8	5.2	5.1	5.0	10.8	12.2	11.5
China Mobile Ltd	13	263,688	15.7	13.3	11.8	7.4	6.4	5.8	28.2	28.2	27.7

Source: Bloomberg Estimates; ; Prices as on July 2nd 2008

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CONFLICT OF INTEREST DISCLOSURE

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Disclosure of interest statement (As of June 30 2008)	**Bharti Airtel**	**Idea Cellular**
1. Analyst ownership of the stock	No	No
2. Firm ownership of the stock	No	No
3. Directors ownership of the stock	No	No
4. Investment Banking mandate	No	No
5. Broking relationship	No	No

We are committed to providing completely independent and transparent recommendations to help our clients reach a better decision.
