

India Telecoms Sector

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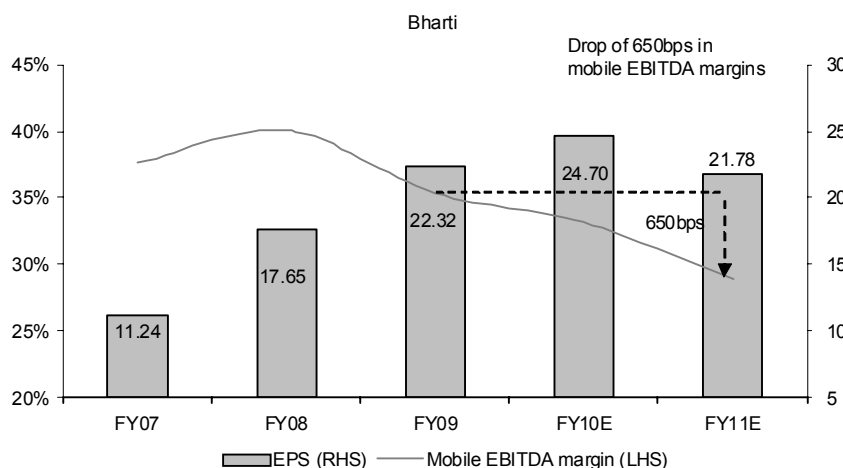
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SECTOR REVIEW

Race to the bottom

Expect sharp erosion in profitability, leading to an earnings decline



Note: mobile EBITDA margins includes tower business

Source: Company data, Credit Suisse estimates

- **The Indian telecom market may have broken into a phase of severe price competition.** The initial stage of this round of competition is likely to be led by a significant decline in RPMs and margin compression, while the endgame would be decided by regulatory flexibility.
- **We expect a 33-35% RPM decline and 600-720 bp erosion in mobile EBITDA margins from FY3/09 through FY3/12.** Despite their protests to the contrary, the incumbent GSM players – Bharti, Vodafone and Idea – would be sucked into a price war as they try to protect their market shares. The best-case scenario is stabilisation by the end of 2010, but this is not certain.
- **Severe erosion in profitability should lead to EPS declines in FY3/11 for all operators.** While Bharti's scale could allow it to retain a respectable ROE of 18%-plus, RCOM's and Idea's should be sub-10%.
- **Despite a sharp share price correction in recent weeks,** we believe the risk-reward remains unfavourable. Negative news flow, weak earnings and consensus downgrades could continue for the next six to 12 months. Valuations do not provide support due to YoY declines in EPS and falling ROEs. Stocks need to fall 15-20% below our target prices (30-40% downside from current levels) before we turn buyers. RCOM and Idea are most vulnerable, while Bharti is also at significant risk due to its overweight position in most portfolios.

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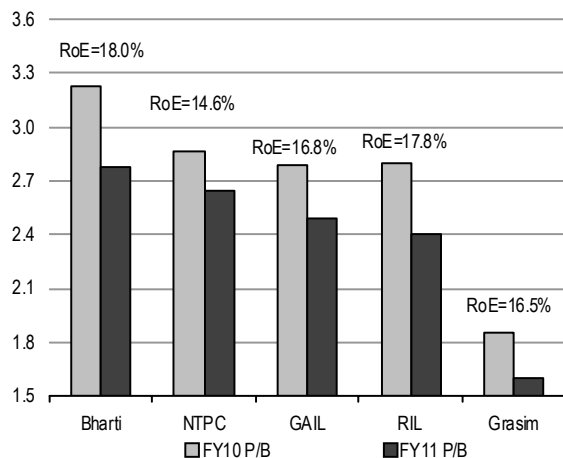
Focus charts and tables

Figure 1: RCOM's 'Simply Reliance' versus Bharti's then existing plan

(Rs)	RCOM's Simply Reliance	Bharti Airtel's Airtel One
Plan tariff	48	47
Local call (per min)	0.50	1.00
National LD (per min)	0.50	1.50
SMS	0.50	1.00
Implied RPM	0.30	0.58

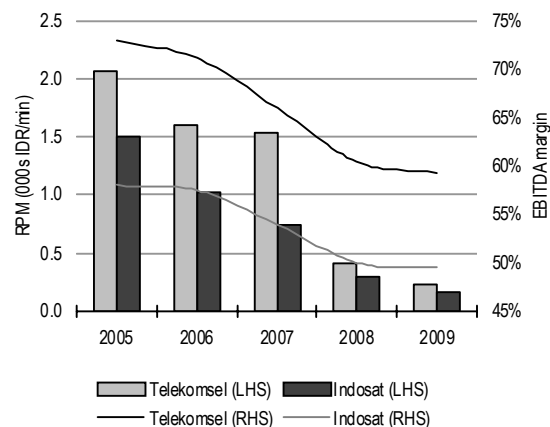
Source: Company data, Credit Suisse estimates

Figure 3: Bharti's P/B higher than firms with similar ROE



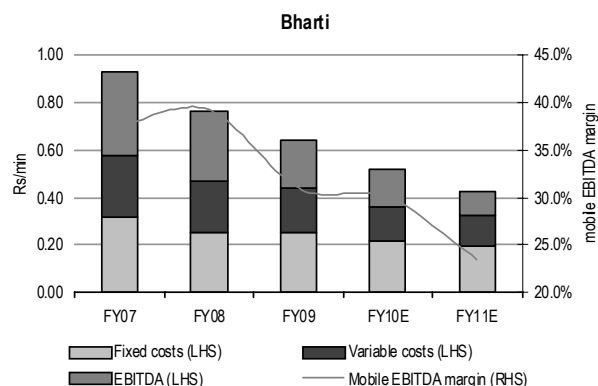
Source: Company data, Credit Suisse estimates

Figure 5: Indonesia: trends in margins and RPMs post-entry of competition



Source: Company data, Credit Suisse estimates

Figure 2: RPMs set to drop



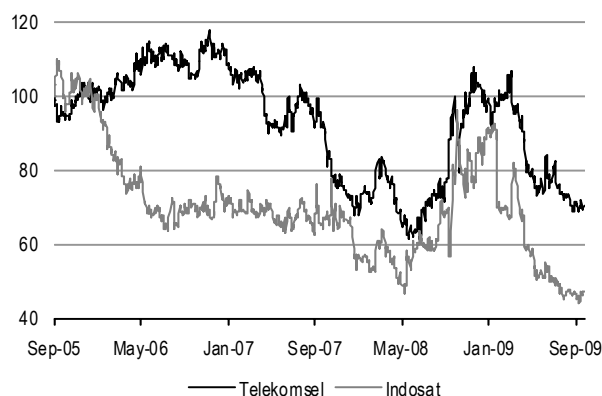
Source: Company data, Credit Suisse estimates

Figure 4: Prices have corrected ahead of consensus downgrades (Bharti P/E consensus)



Source: Company data, Bloomberg, Credit Suisse estimates

Figure 6: Stock price performance of Telekom, Indosat (indexed to Jakarta Composite Index)



Source: Bloomberg

Race to the bottom

The Indian telecom sector has now broken into an all out pricing war with RCOM's new scheme implying a 40-50% discount to current RPMs. The incumbents have no choice but to respond to protect their market share. This should lead to a severe margin contraction and negative EPS growth YoY in FY3/11.

While we have remained cautious on Indian telecoms due to competition, the extent of pricing pressure has surprised us negatively, leading to a further reduction in our EPS and target prices. Our EPS estimates are now 21-53% below consensus for FY3/11 and our target prices imply a 12-27% downside from current levels.

We downgrade Idea to UNDERPERFORM (from Neutral) and retain UNDERPERFORM on Bharti and RCOM. Our target prices are: Bharti Rs290 (from Rs375), RCOM Rs180 (from Rs215) and Idea Rs45 (from Rs72.5).

Price competition has begun

Starting from the introductory offers by RCOM and Tata-DoCoMo, which tried to popularise their GSM services, the pricing war has now spiralled into a market share game. RCOM's latest salvo comes after nine months of its GSM network launch, which has given it ample time to stabilise its network and build capacity to continue with this scheme for some time. With implied revenue per minute (RPM) at a 48% discount to current RPM, the scheme is highly disruptive and bound to force the incumbent GSM players to react.

The incumbents have responded with similar schemes of their own. However, the low key response (no advertising, limited time offer) points to the tentative nature of these plans. This could be either due to a lack of capacity on their networks or due to their expectations of a quick withdrawal of RCOM's scheme.

Do not expect an early end

On the other hand, we do not expect an early end to this price competition. The next six-12 months should see aggressive launches by three to four new players, which should further depress RPMs. Questions on the long-term profitability of these ventures could be raised, but with their access to huge funds (US\$3-5 bn per new player) and regulations tilted against consolidation, we expect this tough environment to continue for the next 12 months at least.

Further, the Indian eco-system is highly conducive for new entrants. The well-developed tower sharing and outsourcing schemes help new players reduce their capex at the expense of higher opex. This could increase the staying power of new players.

Incorporating new market realities

Bharti's aggressive pricing in January 2008 led to a 460 bp mobile margin decline in two quarters, although the scheme implied much higher margins than RCOM's current scheme. In this backdrop, we do not consider our expectations of 33-35% RPM declines and 00-750 bp mobile margin declines over FY09-12 to be aggressive. We thus lower our EPS estimates by 8-66% for FY10 and FY11

While the share prices have come off by 20% over the past three weeks, both earnings-based and book value-based valuations still remain expensive in the context of a YoY earnings decline and decreasing RoEs. We thus retain our cautious stance on the sector.

Price war is now a reality in the sector. We now expect all three listed mobile players to report declines in EPS in FY3/11

RCOM's new plan is highly disruptive (48% discount to current RPM) and bound to force the incumbent GSM players to react.

We expect this tough environment to continue for the next 12 months at least

We lower our EPS estimates for FY10 and FY11 by 8-66%.

Sector valuation

Figure 7: Asian mobile operators – valuation

20-Oct-09	Ticker	Ccy	Close price	Mkt cap (US\$ bn)	Rating	Target price	Normalised P/E		EV/EBITDA (x)		P/B (x)	
							09E	10E	09E	10E	09E	10E
AIS	ADVANC TB Equity	Bt	92	8.1	O	133	14.3	12.5	6.1	5.7	3.7	3.7
AXIATA	AXIATA MK Equity	RM	3	7.8	O	3	13.7	14.1	6.6	5.9	1.5	1.4
Bakrie	BTEL IJ Equity	Rp	131	0.4	U	90	24.5	21.5	4.9	4.4	0.7	0.7
Bharti	BHARTI IN Equity	Rs	329	27.0	U	290	13.3	15.1	8.0	8.8	3.3	2.8
China Mobile	941 HK Equity	HK\$	78	201.1	O	105	11.7	11.4	5.2	4.9	2.7	2.4
DiGi	DIGI MK Equity	RM	22	4.9	U	20	13.9	13.8	7.3	7.1	8.6	8.4
Excelcom	EXCL IJ Equity	Rp	2,100	1.6	O	2,700	16.3	12.3	5.4	4.8	2.9	2.3
FarEasTone	4904 TT Equity	NT\$	38	3.8	O	42	13.2	13.7	4.6	3.6	1.7	1.5
Globe	GLO PM Equity	P	1,005	2.8	O	1,280	10.9	11.0	4.5	4.5	2.5	2.4
HTIL	2332 HK Equity	HK\$	2	1.0	U	1	n.m.	n.m.	-0.5	-4.1	0.3	0.3
IDEA	IDEA IN Equity	Rs	62	3.1	U	45	22.3	37.2	7.7	8.4	1.0	1.0
Indosat	ISAT IJ Equity	Rp	5,650	3.2	O	6,450	14.0	11.8	5.3	4.8	1.6	1.5
LGT	032640 KS Equity	W	8,630	2.0	O	10,500	6.9	6.4	3.5	3.3	1.1	0.9
Mobile-8	FREN IJ Equity	Rp	54	0.1	U	2	n.m.	n.m.	40.7	34.3	3.6	-7.6
MobileOne	M1 SP Equity	S\$	2	1.2	O	2	10.4	9.5	5.8	5.4	6.8	6.4
NTT DoCoMo	9437 JP Equity	¥	133,700	61.6	N	150,000	11.5	11.2	3.5	3.3	1.3	1.2
PT Telkom	TLKM IJ Equity	Rp	8,650	18.2	N	8,700	15.1	14.6	6.7	6.4	3.6	3.3
Reliance	RCOM IN Equity	Rs	232	10.3	U	180	11.4	12.0	8.4	7.3	1.0	1.0
SKT	017670 KS Equity	W	187,000	12.8	O	230,000	10.4	9.5	4.0	3.7	1.3	1.2
SmarTone	315 HK Equity	HK\$	6	0.4	U	6	76.0	55.4	2.5	2.3	1.2	1.2
StarHub	STH SP Equity	S\$	2	2.4	N	2	10.5	10.3	6.4	6.2	21.4	16.3
TAC	DTAC TB Equity	Bt	41	2.9	O	58	13.1	12.2	5.3	4.9	1.5	1.5
Taiwan Mobile	3045 TT Equity	NT\$	60	7.0	O	68	12.9	11.9	9.0	7.3	2.6	2.5
Asia average – mobile							12.1	11.5	5.3	4.9	2.6	2.3

Source: Bloomberg, Company data, Credit Suisse estimates

Figure 8: Lowering EPS estimates

	New estimates			% difference vs old			Consensus EPS			% difference vs consensus		
	FY10E	FY11E	FY10E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E
Bharti	24.70	21.78	24.94	-7.8	-21.6	-22.2	25.93	27.96	31.49	-4.7	-22.1	-20.8
RCOM	20.28	19.37	24.33	-21.3	-35.0	-35.8	23.15	24.47	27.39	-12.4	-20.8	-11.2
Idea	2.78	1.67	3.63	-20.0	-66.0	-45.6	3.29	3.54	3.98	-15.5	-52.9	-8.9

Source: Datastream, Credit Suisse Estimates

Figure 9: Rating and target price changes

Company	Ticker	CMP	Rating		Target prices		% upside to new TP
			Old	New	Old	New	
Bharti Airtel	BRTI.BO	326	Underperform	UNDERPERFORM	375	290	-11
RCOM	RLCM.BO	234	Underperform	UNDERPERFORM	215	180	-23
Idea	IDEA.BO	64	Neutral	UNDERPERFORM	72.5	45	-30

Source: Company data, Credit Suisse estimates

Price competition has begun

Over the past 18 months, nearly all the incumbent telecom operators in India have expanded their services to other circles in order to become national players. Further, CDMA players – RCOM and Tata Tele (in alliance with DoCoMo) – have launched GSM services, indicating that GSM could be the future growth driver. Competition has increased accordingly, with 17 circles now having eight-plus operators each versus just four circles a couple of years ago.

New competition has invariably led to lower tariff plans. RCOM's introductory pricing in January of Rs25 per SIM card with 900 minutes of free talk time was the most radical but lasted only for a month. However, as its network has stabilised, the company has rolled out a plan of Rs0.50 per outgoing call, implying a 48% discount to current RPMs, which should have a significant disruptive impact on the market. Similarly, Tata Tele has launched per-second billing plan, which can erode profitability.

The effectiveness of these plans is borne out by increases in subscriber market shares of these players – RCOM's market share of net adds went up from 17% in December 2008 quarter to 25% in March 2009 quarter, while Tata Tele's market share of net adds went up from 5% in June 2009 to 23% in August 2009.

Though the well-established incumbents maintain that they do not see any reason to respond to irrational pricing schemes, we see increasing signs of their nervousness. These players have launched similar discounted plans in a few circles and could further expand the scope of these plans to minimise the revenue market share loss.

Existing operators have expanded

Over the last 18 months, RCOM, Vodafone, Idea, Aircel and Tata Tele have cumulatively launched operations in 46 circles.

Figure 10: New circles launched in recent months, and operations yet to be started

Operator	No. circles		No. of circles with	
	No. circles 18 months ago	added in last 18 months	No. circles now	licences but not yet launched
RCOM GSM	8	15	23	0
Vodafone	16	7	23	0
Idea (+Spice)	13	4	17	6
Aircel	9	9	18	5
Tata Tele CDMA	20	3	23	0
Tata Tele GSM	0	9	9	14

Source: Company data

As a result, the competitive intensity has risen sharply – 17 circles now have eight or more operators each against only four a couple of years ago (we have separately counted CDMA and GSM operations of the dual technology operators).

Market shares have been disrupted

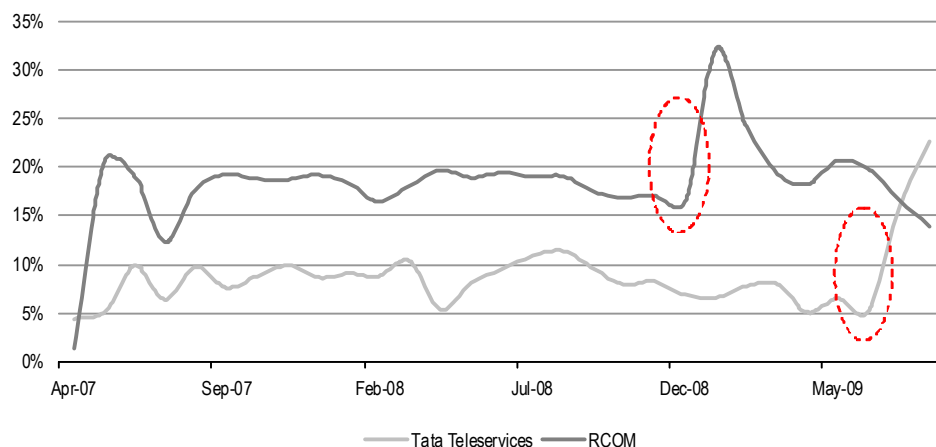
RCOM's and Tata Tele's GSM launches were marked by sharp pricing discounts, which helped the companies garner disproportionate market shares during the initial months.

17 circles now have 8+ operators each versus just four circles a couple of years ago.

Over the last 18 months, RCOM, Vodafone, Idea, Aircel and Tata Tele have cumulatively launched operations in 46 circles

Sharp pricing discounts by new players have helped them garner disproportionate market share

Figure 11: RCOM and Tata have already made sharp inroads into market shares through their GSM launches



Note: Net adds market share; dotted circles indicate the launches of services in new circles

Source: AUSPI, COAI

Figure 12 below shows the disruptive impact Tata's new plan has had in the circles it has launched operations. We expect similar sharp declines in market shares of the incumbents when Tata launches operations in the remaining circles.

Figure 12: Net additions market share (circles where Tata-DoCoMo launched operations)

Market share of net adds (%)	January 2009	February 2009	March 2009	April 2009	May 2009	June 2009	July 2009	August 2009
Bharti	22	18	21	23	25	25	18	15
RCOM*	25	30	12	19	16	16	14	10
Idea	17	12	11	13	15	16	8	9
BSNL/MTNL*	7	11	21	10	6	10	12	9
Vodafone	16	14	17	21	21	18	12	9
Tata*	7	7	9	4	5	3	28	40
Aircel	6	7	9	10	11	10	8	7

*Note: Both GSM and CDMA operations have been considered.

Source: TRAI, COAI, AUSPI

Strong introductory offers

RCOM and Tata Tele launched GSM operations with aggressively priced plans that led to them garnering disproportionately high net additions market share during the initial months.

Aggressively priced plans lead to high net additions market share in the initial months

Figure 13: Reliance GSM's introductory plan

Cost of SIM + activation charge (Rs)	25
Validity	6 months
Free airtime (Rs)	Rs10 each day for 90 days
Local call charges (Rs/min)	0.6
Long distance charges (Rs/min)	1.0
Additional features	Free on-net calls at night
Circles where the plan was introduced	Delhi, Mumbai, Chennai, Maharashtra, Gujarat, AP, Karnataka, TN, Kerala, Punjab, Haryana, UP, Rajasthan and J&K

Source: Company data

Figure 14: TATA DoCoMo's introductory plan (per second billing)

Cost of SIM + activation charge (Rs)	49
Validity	Lifetime
Free airtime (Rs.)	5
Local call charges (Rs/second)	0.01
Long distance charges (Rs/second): first 450 mins	0.01
Long distance charges (Rs/second): thereafter	0.02
Circles where the plan was introduced	Mumbai, Maharashtra, AP, Karnataka, TN, Kerala, Haryana, MP, Orissa

Source: Company data

Figure 15: Aircel's plan

Cost of SIM + activation charge (Rs)	49
Validity	Lifetime
Free airtime (Rs.)	0
Local call charges (Rs/second)	0.01
Long distance charges (Rs/second): first 500 mins	0.01
Long distance charges (Rs/second): thereafter	0.02
Circles where the plan was introduced	Kolkata, West Bengal

Source: Company data

Figure 16: MTS's (Shyam Sistema) plan

Cost of SIM + activation charge (Rs)	49
Validity	Lifetime
Free airtime (Rs)	5
Local call charges (Rs/second): on net	0.01
Local call charges (Rs/second): off net	0.01
Long distance charges (Rs/second)	0.01
Circles where the plan has been introduced:	Rajasthan, Bihar, Kolkata, West Bengal

Note: This plan will require a daily deduction of Re1

Source: Company data

However, incumbent GSM players refrained from reacting to these plans, as they deemed these plans to be introductory in nature.

RCOM's new plan could be the last straw

However, RCOM's recently introduced the 'Simply Reliance' plan, nine months after it launched the GSM services. The company thus has had enough time to stabilise its network and create capacity to sustain this plan for some time. Indeed, RCOM's management commented that it intends to continue with this plan for some time (unlike their clear views that January plan was introductory in nature).

Implied RPM of Rs0.30/min. for new plan is at a significant discount to reported RPMs

Figure 17: RCOM's 'Simply Reliance' tariff plan was launched on 5 October 2009

Reliance's 'Simply Reliance' Plan	
Cost of activation – one-time charge (Rs)	48
Validity of plan	Lifetime
Local call charges (Rs/min)	0.50
Long distance charges (Rs/min)	0.50
SMS (Rs)	0.50

Source: Company data, Credit Suisse estimates

Figure 18: Implied RPM of Rs0.30/min ...

Start-up cost (Rs)	48
Tariff structure	Rs
Local/STD (per min)/ SMS (per sms)	0.50
ISD (per min)	7.00
Operating assumptions from TRAI	
MoU	484
Of which incoming %	51.4
% on-net calls in outgoing	55.0
% outgoing	
To Local	86.6
To STD	12.9
To ISD	0.5
SMS/month	30
Revenues per month per subscriber (Rs):	
Total revenues from outgoing calls	125
Total revenues from SMS	15
Total revenues from incoming termination charges	24
Amortisation of start-up cost**	0.0
Total revenues	164
Implied RPM (Rs)	0.34
Service tax (@12%)	0.04
Implied RPM net of service tax (Rs)	0.30

Note: Actual reported RPM is usually at a 10-20% premium to calculated RPM on account of breakage and other charges. Our models build in RPM of Rs0.43 in FY3/11.

***Assume life of connection = 2 years*

Source: Company data, Credit Suisse estimates

Figure 19: ... is at a significant discount to reported current RPMs in the industry

Reported RPM (Rs)	2008			2009	
	Jun	Sep	Dec	Mar	Jun
Bharti	0.65	0.63	0.64	0.63	0.58
RCOM	0.67	0.64	0.61	0.60	0.58
Idea	0.65	0.62	0.64	0.63	0.58
% YoY					
Bharti	-7.2	-3.4	1.7	-2.1	-7.4
RCOM	-9.8	-3.7	-4.4	-1.6	-4.5
Idea	-7.0	-3.8	3.1	-1.5	-8.3

Source: Company data, Credit Suisse estimates

Bharti, Vodafone and Idea – despite their public stance of not reacting to the price competition – are taking RCOM's new tariff more seriously. They have introduced similar tariffs in a low key manner and could become more aggressive if they see a significant impact on their market shares.

Figure 20: Responses to RCOM's tariff cuts

RCOM (All India)		Idea (Mumbai)*		Idea (AP)*	Bharti Airtel (Mumbai)*		Bharti Airtel (Mah & Goa)*		Bharti Airtel (Punjab)*		Vodafone (Mumbai)		Vodafone (Rajasthan)	
Plan tariff	Rs48 one time	Rs47/year	Rs105/year		Rs62 once in five months		Rs45/year		Rs60/year		Rs51 once in five months		Rs75/year	
Local call	Rs0.50/min	Rs0.40/min	Rs0.50/min		Rs0.30/min (on-net) Rs0.50/min (off-net)		Rs0.50/min		Rs0.60/min		Rs0.40/min (on-net) Rs0.50/min (off-net)		Rs0.50/min	
National LD	Rs0.50/min	Rs0.50/min	Rs0.50/min		Rs0.50/min		Rs0.50/min		Rs0.60/min		Rs0.50/min		Rs0.50/min	
SMS	Rs0.50	Rs 0.50	Rs 0.50		Rs1 (local) Rs 1.50 (national)		Rs1 (local) Rs 1.50 (national)		Rs1 (local) Rs 1.50 (national)		Rs1 (local) Rs 1.50 (national)		Rs1 (local) Rs 1.50 (national)	

** The first call of the day will be charged at full rate of Rs1 for local and Rs1.50 for NLD*

Source: Company data, Credit Suisse estimates

Do not expect an early end

While the price competition over the past 12 months has been led by the incumbents, we believe the next 12 months could see aggressive competition by the new players. Most of these new players have parentage with reasonable funding capability and have created a pan-India investment plan of US\$3-5 bn over the next three to four years. While issues like long-term profitability could be raised, the regulatory exit barriers in India will preclude an early exit and lead to high competition for the next 12 months at least.

Regulatory exit barriers in India will preclude an early exit and lead to high competition in the next 12 months at least

The experience from other markets clearly indicates that competition could lead to strong declines in RPMs and margins. In Indonesia, Telekomcel saw declines of 75% in RPMs and 1,074 bp in EBITDA margin during 2006-08. In this period, it underperformed the JCI index by 64%. Examples of Hong Kong and Thailand show an adverse impact on margins and capex post the introduction of competition in their markets.

Things could only get worse

With three pan-India and two regional operators set to launch operations soon, the country is heading to a scenario of an average 13 operators in each circle. Thus, while 18 months ago, there were only three operators pan-India, the number will reach 10 very soon.

Number of pan-India operators to reach 10 very soon

Thus, while 18 months ago, there were only three operators pan-India, the number will reach 10 very soon.

Figure 21: 10 pan-India mobile operators expected soon

Operator	No. circles		No. of circles	
	No. circles 18 months ago	added in last 18 months	No. circles now	with a licence but not yet launched
Bharti	23	0	23	0
BSNL/MTNL	23	0	23	0
RCOM CDMA	21	0	21	0
RCOM GSM	8	15	23	0
Vodafone	16	7	23	0
Idea (+Spice)	13	4	17	6
Aircel	9	9	18	5
Tata Tele CDMA	20	3	23	0
Tata Tele GSM	0	9	9	14
Sistema – Shyam	1	5	6	17
Datacom	0	0	0	23
Telenor-Unitech	0	0	0	23
Etisalat – Swan	0	0	0	16
S Tel	0	0	0	6

Source: Company data

New entrants willing to undergo the short-term pain

Most new entrants have targets of achieving an 8-10% market share over the long term. Over time, companies are willing to bear losses to gain foothold in the market.

Have ambitious targets of 8-10% market share each

Figure 22: New operators have ambitious targets for market shares ...

New operator	Management's guidance at the time of launch
Sistema – Shyam	Target 10%-plus share of net adds, with a long-term (five-year) subscriber market share target of 7-8%
Telenor-Unitech	Target long-term subscriber market share in India of 8%
Datacom	50 mn subscribers over the next three years

Source: Company data, news articles – Economic Times, Business Standard, Financial Express

Figure 23: ... and they are willing to sustain huge losses for a long time

New operator	Management's guidance at the time of launch
Sistema – Shyam	Hopes to achieve EBITDA break-even by September 2013; expecting positive free cash flow only after six to seven years
Telenor-Unitech	Willing to sustain close to US\$3 bn in negative cash flows before breaking even three years after the launch; OCF breakeven five years after the launch
Datacom	Willing to invest US\$3 bn over the next three years

Source: Company data, Economic Times, Business Standard, Financial Express

Easing liquidity conditions have helped funding

All new entrants have parents with deep pockets. Parents have decent cash flow generation and sufficient room to increase leverage with little scope of investing for growth in their traditional markets.

Unitech, Shyam-Sistema, Aircel and S Tel have raised over US\$5 bn in funding over the last 12 months

Figure 24: Cash balances for various players

Operator	Parent	Parent's financials			% stake held in operator
		EBITDA – capex (US\$ mn)	Cash (US\$ mn)	Net debt/equity	
Uninor	Unitech	-82	127	1.6	32.8
	Telenor	1,189	1,565	0.8	67.3
Shyam Sistema	Sistema	1,425	1,991	0.7	74.0
Etilasat DB	Etisalat	1,471	3,075	0.0	45.0
S Tel	Batelco	258	407	-0.1	42.7
Tata Docomo	Docomo	9,350	6,047	0.0	26.0
Aircel	n.a.	n.a.	n.a.	n.a.	74.0

Note: Data corresponds to year ending/as of 31 March 2009 for Unitech and Docomo, 31 December 2008 for Sistema, Etisalat, Telenor and Batelco

Source: Company filings, Bloomberg

Easing liquidity conditions have also helped new operators raise funding recently which gives greater visibility on their launches. On last count, Unitech, Shyam-Sistema (not listed), Aircel (not listed) and S Tel (not listed) have between them raised over US\$5 bn in funding over the past 12 months.

Figure 25: Recent financing arrangements

Operator	Financing arrangements (Equity)	Financing arrangements (Debt)
Uninor	Rs61 bn from Telenor in 2009.	Bridge facility of Rs50 bn from State Bank of India
Shyam Sistema		US\$70 mn loan agreement with Bank of China
Aircel		Rs110 bn 10-year project financing; Rs3.5 bn six-month loan provided by United Bank of India and a Rs12 bn 11-month loan provided by Bank of Baroda
S Tel	Raised US\$225 mn from Batelco	

Source: Company filings, Economic Times, Business Standard, Financial Express

Willing to price below the market

Due to high fixed costs of a network, new operators would be inclined to price below market to fill capacity in their networks in the initial stage of their roll out.

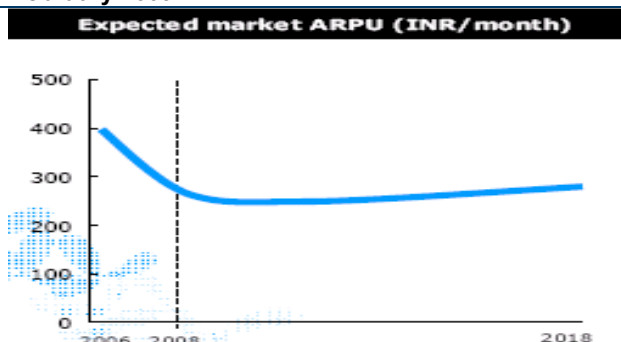
Figure 26: New operators willing to price below the market to gain market share

Operator	Comments on pricing
Telenor-Unitech	Will have ARPU below-market in first (few) years. ARPU decline expected to continue for next few years before stabilising
Sistema-Shyam	Will have RPM and ARPU below market

Source: Company data

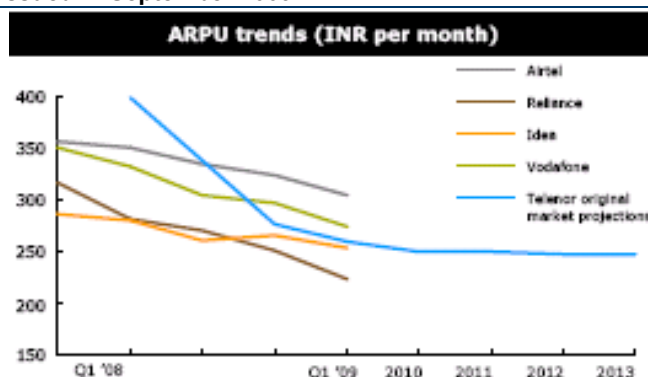
In fact, Telenor revised its outlook on industry ARPU. It now expects ARPUs to fall versus its February 2009 expectation of stable ARPUs.

Figure 27: Telenor's outlook on industry ARPUs – issued in February 2009



Source: Company data

Figure 28: Telenor's revised outlook on industry ARPUs – issued in September 2009



Source: Company data

Willing to sustain losses, to gain share eventually

Telenor recently said the Indian operations can sustain US\$3 bn in investments before breaking even.

Figure 29: Telenor willing to sustain cumulative negative operating cash flow of US\$3 bn before breaking even

(US\$ bn)	2009	2010	2011-13	Total over 5 years
Operating cash flow	(0.7-1.0)	(1.3-1.6)	(0.7-1.0)	(2.8-3.6)

Source: Company data

Experience from other markets

Experience in other countries shows that the introduction of competition does have an adverse impact on market share, EBITDA margins and capex in the initial stages. However, the medium-term impact varies across countries primarily based on the regulatory environment and the response by the incumbents.

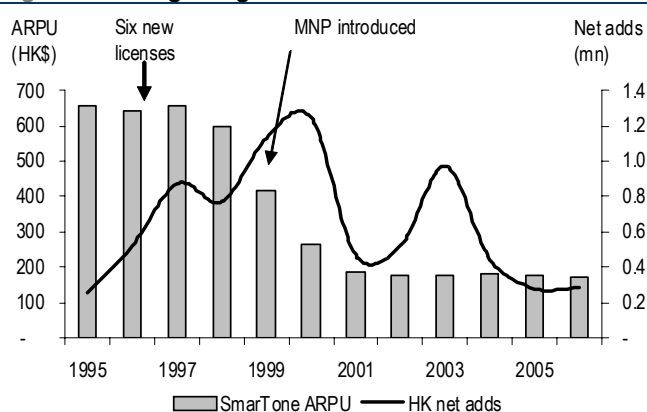
Hong Kong

While Hong Kong was highly competitive before the introduction of more competition, there were drops in ARPU and increases in net additions with the award of licences. However, CSL was able to maintain its margin, albeit at the expense of market share. Secondly, we note that a significant decline in margin does need a large player to offer discounted tariff and focus on market share over profitability – Hutchison did that in Hong Kong.

Adverse impact in the initial stages

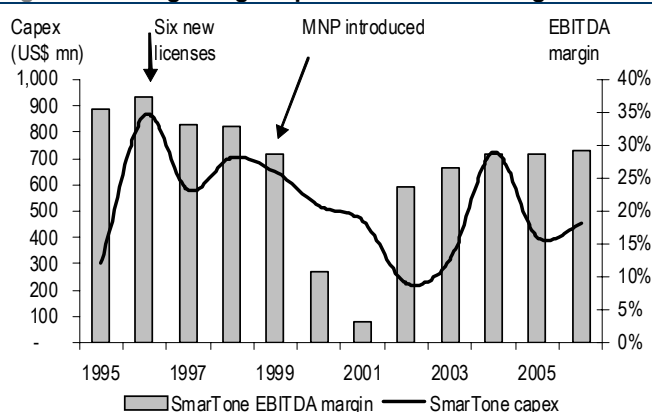
Medium-term impact depends on regulatory environment and response from incumbents

Figure 30: Hong Kong: ARPU and net additions

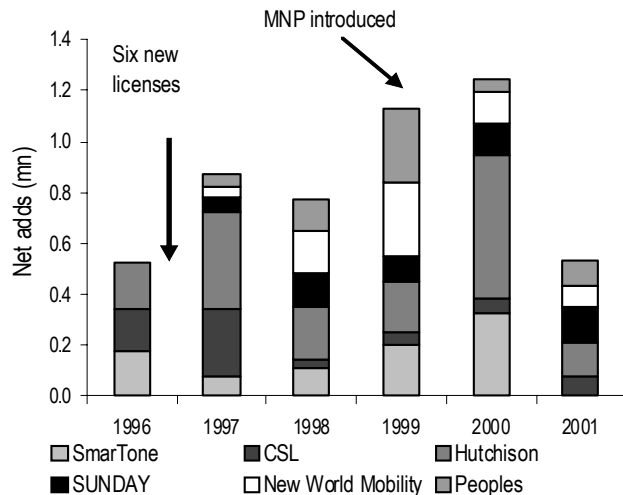


Source: Company data

Figure 31: Hong Kong: Capex and EBITDA margin trend



Source: Company data

Figure 32: Hong Kong net additions market share

Source: Company data

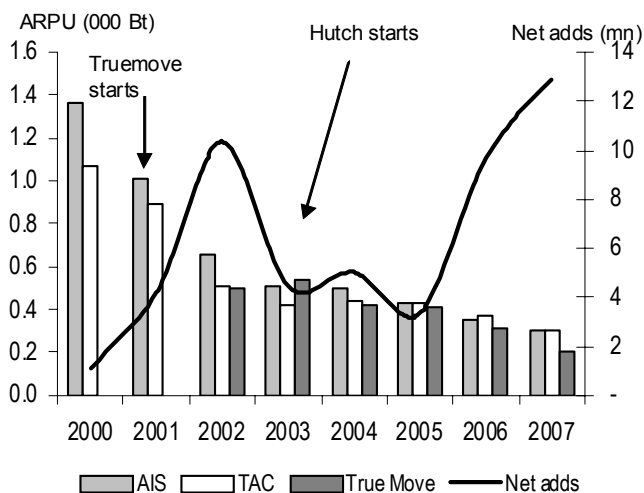
Figure 33: Smart one's share price performance

Note: Rebased to Hang Seng Index

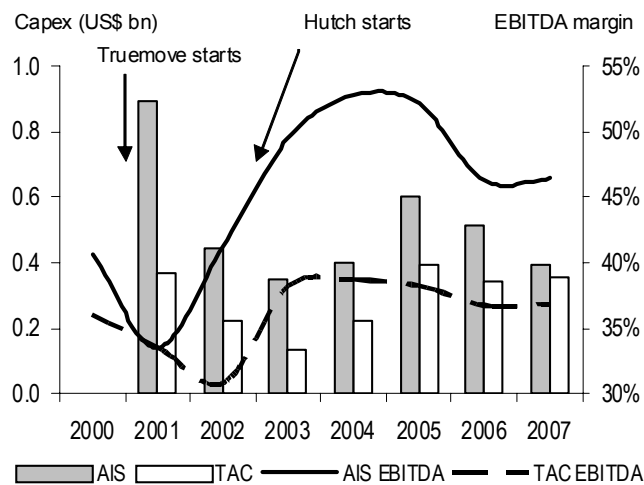
Source: Bloomberg

Thailand

Thailand, a less competitive market, initially saw higher capex, lower pricing and resultant higher net additions. However, regulatory issues with regards to the entry of new players allowed operators to focus on profitability, by optimising pricing and margin. This led to a recovery in margin and profit growth.

Figure 34: Thailand: ARPU and net additions

Source: Company data

Figure 35: Thailand: capex and EBITDA margin trend

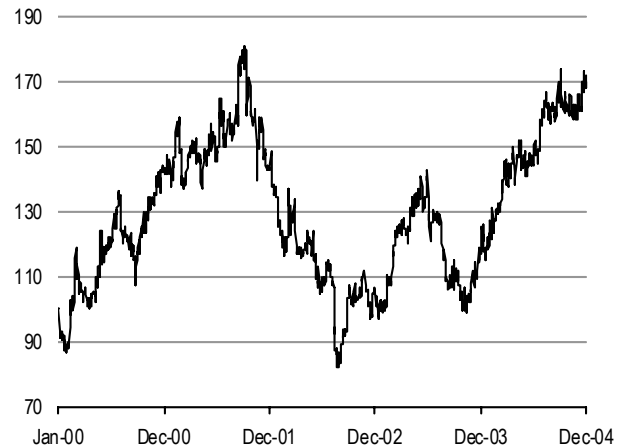
Source: Company data

Figure 36: Thailand: market share of net adds



Source: Company data

Figure 37: AIS Stock price performance
(indexed to Stock Exchange of Thailand)

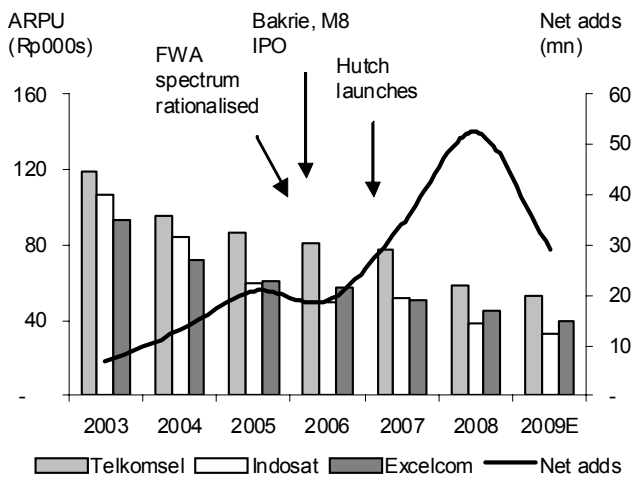


Source: Company data, Credit Suisse estimates

Indonesia

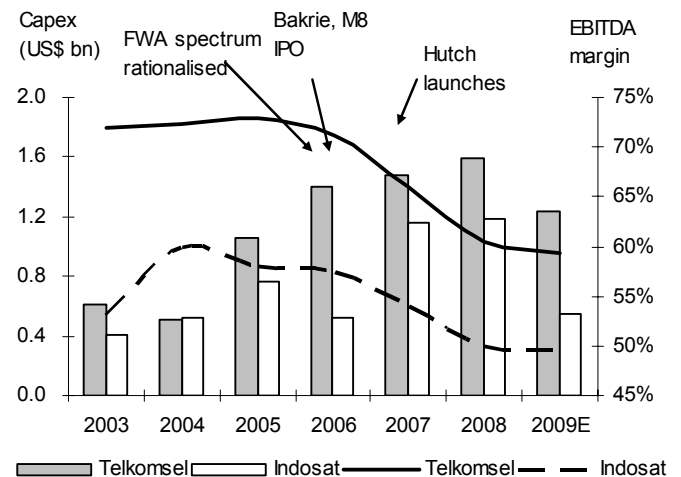
In Indonesia, the entry of competition and the resultant price war has sharply reduced the profitability of the sector. Initially, net additions grew strongly but they peaked in 2008 when penetration reached 68.5%. While capex levels have increased post the entry of competition, EBITDA margin has suffered a decline as the market became more fragmented.

Figure 38: Indonesia: ARPU and net adds

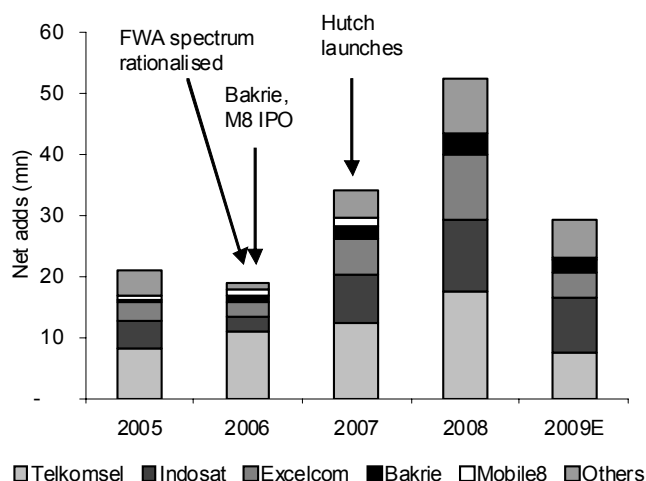


Source: Company data, Credit Suisse estimates

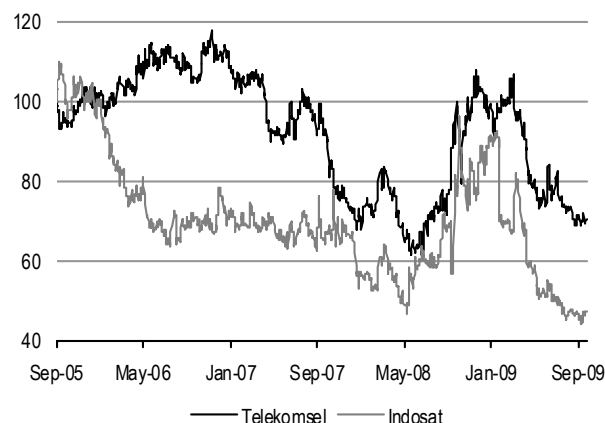
Figure 39: Indonesia: Capex and EBITDA margin trend



Source: Company data, Credit Suisse estimates

Figure 40: Indonesia: market share of net adds

Source: Company data

Figure 41: Share price performance of Telekom, Indosat

indexed to Jakarta Composite Index

Source: Company data, Credit Suisse estimates

Indian ecosystem favours new entrants

First, unlike Thailand, the regulatory environment in India has so far been favourable to competition (new licence issuances, a cut in termination charges and the imminent introduction of mobile number portability).

Second, unlike all the three countries discussed above, a well-developed outsourcing ecosystem has helped companies cut down on lead time. The entry barriers for the mobile industry are thus low due to this easing of replacing capex with opex spend.

New entrants helped by favourable regulatory environment, well-developed outsourcing ecosystem

Figure 42: Tower sharing deals signed by the new entrants

Operator	Tower company	Number of sites
Etisalat DB India	Reliance Infratel	30,000
S Tel	Reliance Infratel (non exclusive)	2,500
Telenor-Unitech	Tata-Quippo	40,000
Datacom	Tata-Quippo	10,000
Datacom	BSNL	n.a
Sistema-Shyam	Reliance Infratel (non-exclusive)	n.a
Aircel	BSNL	45,000
Tata-Docomo	BSNL	n.a.

Etisalat DB India (not listed), S Tel (not listed), Telenor-Unitech (not listed), Datacom (not listed), Sistema-Shyam (not listed), Tata-Quippo (not listed), Reliance Infratel (not listed).

Source: Company data, news articles

Figure 43: IT outsourcing deals signed by the new entrants

Operator	Vendor	Services outsourced	Duration years	Value (US\$ mn)
Etisalat DB	Tech Mahindra	IT operations	10	400
Telenor-Unitech	Wipro	IT operations	9	520
Telenor-Unitech	Alcatel -Lucent/Huawei	Network rollout/support	5	400
Datacom	Huawei	Network rollout/support	n.a	100
Datacom	IBM	IT operations		
Sistema-Shyam	Aegis	BPO	n.a	n.a
Sistema -Shyam	IBM	IT operations	n.a	n.a
Aircel	Wipro	IT operations	9	n.a

Source: Company data, Economic Times, Business Standard, Financial Express

Third, under current rules, the promoters of new operators have a three-year lock-in before they can exit the companies. In addition, current rules prevent consolidation with several restrictions on M&A.

Figure 44: Regulations provide exit barriers

Clause relating to	Full clause
M&A	While intra-circle M&A is allowed, following conditions need to be satisfied: 1) number of remaining operators should not fall below three. 2) market share of the merged entity should be less than 40%. 3) licensee must have completed three years of operations before it can contemplate the merger, and 4) finally subject to approval by the government (Department of Telecom).
Spectrum cap of the merged entity	Maximum spectral holding for a merged entity is 15 MHz per operator per service area in metros and category A circles while it is 12.4MHz per operator per service area in category B and category C circles. However, any transfer of spectrum requires government approval and is bound by government spectrum allocation criterion.
Partial divestment	No single company can hold more than 10% equity stake in more than one licensee company in the same circle.
Sub-leasing of licence	No sub-leasing/partnership/third-party interest shall be created by any licensee.
Lock-in of shares	Promoter(s) are locked-in for a period of three years from the effective date of receiving the licence.
Dilution through issue of equity	Dilution through fresh equity issuance is allowed during the three-year lock-in period as long as the stake of the promoter does not fall below 10% of total equity. In this situation, the declaration of dividend and/or special dividend shall be barred.
Applicability to existing licensees acquiring new licences	All recommendations shall apply to the licensees holding UAS/CMTS licences for a period of more than three years, if they acquire any new UAS licence in some other service area in order to enlarge their area of operations.

Source: TRAI, DoT

However, our recent discussions with the regulator indicate that the government may consider easing consolidation norms in the industry.

Incorporating new market realities

Incorporating the new competitive environment, we change our market share estimates, building in gains in share by new entrants at the expense of incumbents. We also build 33-35% RPM declines from FY09 to FY12. As a result, our mobile margin estimates show 600-720 bp declines over this period. Our EPS estimates go down 8-66% for FY10/11.

33-35% RPM declines,
mobile margins to drop 600-
720 bps from FY09 to FY12

We caution that our current models imply a far more optimistic scenario than that implied by the recent tariff cuts. Bharti's tariff cuts in January 2008 implied an RPM decline of 23% and had led to a margin decline of 460 bp over the following six months. RCOM's current plans imply an RPM decline of 48% and hence could have a margin decline of 1,000+ bp.

Valuations on consensus forward multiples are already below historical levels. However, we believe these have preceded sharp cuts in consensus estimates that we expect in coming weeks. Furthermore, with the strong EPS growth of the past turning into EPS declines going forward, the valuation multiples would need to be adjusted lower. In this scenario, we retain our cautious stance on the sector.

We retain UNDERPERFORM on Bharti and RCOM, and downgrade Idea to UNDERPERFORM from Neutral. Our target prices are: Bharti Rs290 (from Rs375), RCOM Rs180 (from Rs215) and Idea Rs45 (from Rs72.5).

Changing market share estimates

With increasing visibility of new operator launches, we believe incumbent market shares will be affected significantly. Our long-term market share estimates for Bharti go down by 0.8% and Vodafone by 0.6%, while our long-term market share estimate for smaller/new operators is at 10.5%.

Cumulative market share
estimate for smaller/new
operators at 10.5%

Figure 45: Incumbent market shares have been affected significantly

	Historical		Old estimates				New estimates			
	FY08	FY09	FY10E	FY11E	FY12E	FY13E	FY10E	FY11E	FY12E	FY13E
Population (mn)	1,154	1,161	1,177	1,193	1,208	1,224	1,177	1,193	1,208	1,224
Penetration (%)	22.6	33.7	45.8	53.2	58.4	63.1	45.8	55.3	62.3	68.4
Market share (%)										
Bharti	23.7	24.0	23.9	23.8	23.7	23.7	23.4	23.0	22.9	22.9
Reliance	17.5	18.5	18.8	18.8	18.8	18.8	18.4	18.2	18.3	18.4
Vodafone	16.9	17.6	17.9	17.6	17.5	17.4	17.7	17.3	17.1	16.9
BSNL/MTNL	17.0	14.5	13.7	13.1	12.7	12.5	12.7	12.1	11.8	11.6
Idea	10.8	11.0	11.1	11.2	11.3	11.4	11.0	10.9	10.8	10.7
Tata Tele	9.3	9.0	8.6	8.5	8.4	8.3	9.1	9.2	9.1	9.0
Others	4.7	5.5	6.2	7.0	7.6	7.9	7.6	9.5	10.1	10.5

Source: TRAI, Credit Suisse estimates

Moving from a pricing battle to a full-fledged war

While we have built some pricing pressure earlier, we significantly increase those estimates on the back of recent competitive moves. We also bring down our usage estimates on the back of increasing issuance of multiple SIM cards and shift of share to new entrants. We note that the issue of multiple SIM cards lead to limited change in our absolute subscriber forecasts for these companies (despite a loss in market share). Thus, instead of an impact in subscriber numbers due to new players, we build that impact through lower usage.

Price war to lead to huge
declines in RPMs and
ARPU

Figure 46: Bharti

	Old estimates			New estimates			Difference (%)		
	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E
RPM (Rs/min)	0.54	0.47	0.45	0.52	0.42	0.41	-3.6	-9.3	-9.3
MOU (min/subs/mth)	472	462	476	471	461	475	-0.3	-0.3	-0.3
ARPU (Rs/subs/mth)	253	215	213	243	195	193	-3.8	-9.5	-9.5

Source: Credit Suisse estimates

Figure 47: RCOM

	Old estimates			New estimates			Difference (%)		
	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E
RPM (Rs/min)	0.52	0.49	0.48	0.51	0.43	0.42	-1.7	-12.5	-13.3
MOU (min/subs/mth)	413	409	409	361	356	358	-12.5	-12.9	-12.4
ARPU (Rs/subs/mth)	213	201	197	183	153	150	-14.0	-23.7	-24.1

Source: Credit Suisse estimates

Figure 48: Idea

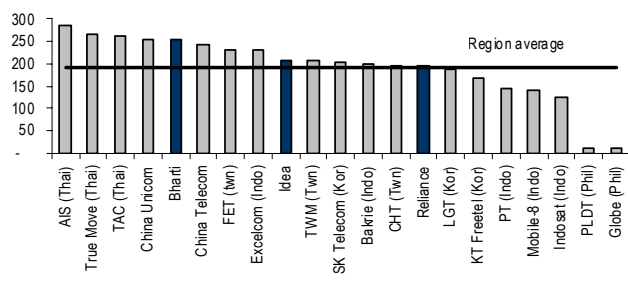
	Old estimates			New estimates			Difference (%)		
	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E
RPM (Rs/min)	0.48	0.42	0.39	0.49	0.41	0.39	2.3	-3.5	0.3
MOU (min/subs/mth)	447	465	479	395	387	399	-11.6	-16.7	-16.7
ARPU (Rs/subs/mth)	214	195	185	194	157	155	-9.6	-19.7	-16.5

Source: Credit Suisse estimates

Would elasticity save the day?

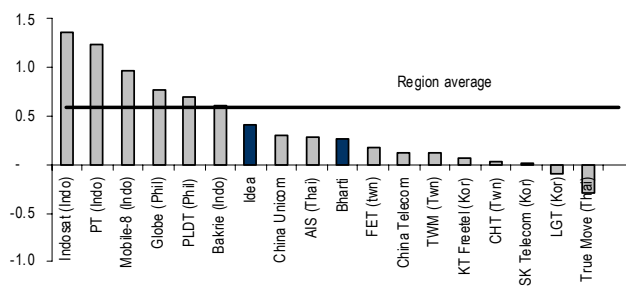
Unlike other countries, the usage levels in India are already high and price-usage elasticity at these levels could be low. Indian companies' elasticity over the last few years has been less than regional levels.

Already high usage levels
imply lower elasticity

Figure 49: Indian MoUs are already high

Note: Only outgoing MoUs have been considered

Source: Company data, Credit Suisse estimates

Figure 50: Indian price usage elasticity is less than the regional average

Average price usage elasticity over the last two years

Source: Company data, Credit Suisse estimates

Margin should be impacted

Our lower pricing estimates lead to a reduction in our margin estimates for the companies. We now build a 550 bp lower mobile margin for Bharti over the next three years compared to our earlier expectations.

Mobile EBITDA margins to
fall by up to 11%

Figure 51: Bharti

	Old estimates			New estimates			Difference (%)		
	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E
Mobile EBITDA margin (%)	31.7	29.0	28.9	30.0	23.5	23.4	-1.6	-5.5	-5.5
Consol EBITDA margin (%)	40.5	38.2	37.9	39.4	34.6	34.4	-1.1	-3.6	-3.6

Source: Credit Suisse estimates

Figure 52: RCOM

	Old estimates			New estimates			Difference (%)		
	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E
Mobile EBITDA margin (%)	24.1	24.2	25.4	17.7	14.5	14.7	-6.3	-9.7	-10.8
Mobile + tower EBITDA margins (%)	36.4	36.5	37.0	36.3	31.9	31.2	-0.1	-4.6	-5.8
Consol EBITDA margin (%)	40.6	40.2	39.8	38.2	37.7	36.8	-2.4	-2.5	-3.0

Note: RCOM's mobile business sees a greater margin reduction due to increases in tower rental assumptions with its tower business

Source: Credit Suisse estimates

Figure 53: Idea

	Old estimates			New estimates			Difference (%)		
	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E
Mobile EBITDA margin (%)	24.8	23.3	25.0	21.7	14.9	18.3	-3.2	-8.4	-6.8
Consol EBITDA margin (%)	27.6	30.3	32.4	25.2	23.2	26.8	-2.5	-7.1	-5.6

Source: Credit Suisse estimates

Are our margin estimates too low?

We had evidence of tariff cuts of this magnitude happening in the India telecoms sector as recently as March-2008 quarter. At that time, Bharti had cut local call charges by 50% (from Rs1.99/min to Rs1.00/min) and national long distance tariffs by 43% (from Rs2.65/min to Rs1.50/min). The implied RPM in the new plan – at Rs0.58/min – was at a 23% discount to the then prevailing RPM (Rs0.76/min in December-2007 quarter).

In March 2008, a decline in RPM by 23% led to drop in margins of 460 bps over two quarters

Figure 54: Bharti's tariff plans before and after the tariff cut

	January 2008 tariff structure
Start-up cost (Rs)	495
Tariff structure (Rs)	
Local (per min)	1.00
STD (per min)	1.50
SMS	1.00
Operating assumptions from TRAI	
MoU	493
Of which incoming %	50.5
% on-net calls in outgoing	55.0
SMS/month	30
Revenues per month per subscriber (Rs)	
Total revenues from outgoing calls	260
Total revenues from SMS	30
Total revenues from termination charges	34
Amortisation of start-up cost**	0
Total revenues	324
Implied RPM (Rs/min)	0.66
Service tax (@12%)	0.08
Implied RPM net of service taxes (Rs/min)	0.58

Note: Actual reported RPM is usually at a 10-20% premium to calculated RPM on account of breakage and other charges

**Assumes life of connection = 2 years

Source: Company data, Credit Suisse estimates

At the prevailing cost structure of Rs0.45/min, the new plan implied a per-minute EBITDA of Rs0.13 (23% EBITDA margin).

Figure 55: Bharti: Impact of tariff cuts on key numbers

	December 2007	March 2008	June 2008
Reported RPM in quarter (Rs/min)	0.76	0.70	0.65
Cost per minute (Rs/min)	0.45	0.42	0.42
EBITDA margin (%)	41	40	36

Source: Company data

On the other hand, if we look at the current plan, it implies a RPM of Rs0.30 while the cost per minute is around Rs0.39. Thus, the impact on RPM and margin could be higher.

Figure 56: Implied RPM of Rs0.30/min in RCOM's new plan

Start-up cost (Rs)	48
Tariff structure	Rs
Local/STD (per min)/ SMS (per sms)	0.50
ISD (per min)	7.00
Operating assumptions from TRAI	
MoU	484
Of which incoming %	51.4
% on-net calls in outgoing	55.0
% outgoing	
To Local	86.6
To STD	12.9
To ISD	0.5
SMS/month	30
Revenues per month per sub (Rs):	
Total revenues from outgoing calls	125
Total revenues from SMS	15
Total revenues from incoming termination charges	24
Amortisation of start-up cost**	0.0
Total revenues	164
Implied RPM (Rs)	0.34
Service tax (@12%)	0.04
Implied RPM net of service tax(Rs)	0.30

Note: Actual reported RPM is usually at a 10-20% premium to calculated RPM on account of breakage and other charges. We are assuming RPM of Rs0.43 for FY3/11

**Assumes life of connection = two years

Source: Company data, Credit Suisse estimates

Figure 57: Bharti's current cost levels

Bharti's recent quarters	December 2008	March 2009	June 2009
Reported RPM in quarter (Rs/min.)	0.64	0.63	0.58
Cost per minute (Rs/min.)	0.44	0.43	0.39
EBITDA margin (%)	31.4	31.5	33.0

Source: Company data, Credit Suisse estimates

What is the flexibility in costs?

A look at Bharti's cost structure shows that for FY3/09, Rs0.19/min (or 43% of total cost) is in the form of interconnect or regulatory charges. There is little scope for scale/elasticity benefits in this cost (interconnect is decided by market forces or regulated in the case of termination charges, license/spectrum fee is regulated as a percentage of revenue). Thus, cost efficiencies need to be squeezed out of network opex and other costs (salaries and SG&A). We note that a large part of network opex is rental fees to the tower companies – thus any improvement here could impact our tower numbers for these companies.

Figure 58: Bharti's per min cost structure

(Rs/min)	FY3/07	FY3/08	FY3/09A	FY3/10E	FY3/11E
RPM	0.93	0.77	0.64	0.52	0.42
Interconnect/min	0.16	0.14	0.13	0.10	0.09
Network opex/min	0.09	0.08	0.11	0.10	0.09
License fees + spectrum costs/min	0.10	0.07	0.06	0.05	0.04
Other costs/min	0.23	0.17	0.14	0.12	0.10
Total costs per min	0.58	0.47	0.44	0.36	0.32
EBITDA per min	0.35	0.30	0.20	0.16	0.10

Source: Company data, Credit Suisse estimates

EPS estimates thus go down 8-66%

With the above pricing and margin assumptions, our EPS estimates for companies fall to an 8-66% range for FY10 and FY11.

Figure 59: Lowering EPS estimates

	Old estimates			New estimates			Difference (%)		
	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E
Bharti	26.79	27.79	32.04	24.70	21.78	24.94	-7.8	-21.6	-22.2
RCOM	25.78	29.81	37.89	20.28	19.37	24.33	-21.3	-35.0	-35.8
Idea	3.48	4.90	6.67	2.78	1.67	3.63	-20.0	-66.0	-45.6

Source: Credit Suisse estimates

Figure 60: Rating and target price changes

(Rs) Company name	Ticker	Current market price	Rating		Target prices		% upside to new target price
			Old	New	Old	New	
Bharti Airtel	BRTI.BO	326	Underperform	UNDERPERFORM	375	290	-11
RCOM	RLCM.BO	234	Underperform	UNDERPERFORM	215	180	-23
Idea	IDEA.BO	64	Neutral	UNDERPERFORM	72.5	45	-30

Source: Company data, Credit Suisse estimates

Figure 61: Growth and returns

(%)	EPS growth			EBITDA growth			ROE		
	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E
Bharti	10.7	-11.8	14.5	7.3	-7.7	15.1	23.6	18.0	18.3
RCOM	-30.7	-4.5	25.6	4.2	14.8	17.4	9.1	8.0	9.3
Idea	1.7	-40.0	117.7	12.0	-4.5	32.9	4.7	2.7	5.6

Source: Credit Suisse estimates

Figure 62: Key valuation multiples

	P/E (x)			EV/EBITDA (x)			P/B (x)		
	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E
Bharti	13.3	15.0	13.1	8.0	8.7	7.3	3.2	2.8	2.5
RCOM	11.4	11.9	9.5	8.4	7.3	6.2	1.0	1.0	0.9
Idea	22.3	37.2	17.1	7.7	8.4	6.2	1.0	1.0	1.0

Note: Prices as of 20-Oct., Bharti (Rs328), RCOM (Rs231), Idea (Rs62)

Source: Credit Suisse estimates

Valuation multiples have fallen ahead of consensus downgrades

Forward valuation multiples (both absolute and relative to market) for Indian telecom companies are below historical levels. However, we believe the fall in multiples has preceded the consensus downgrades that we expect to happen in the coming weeks resulting from deterioration in operating metrics.

We expect significant consensus downgrades in the coming weeks

Figure 63: Bharti's 12M forward P/E (consensus)



Source: Datastream, Bloomberg

Figure 64: Bharti's 12M forward EV/EBITDA (consensus)



Source: Datastream, Bloomberg

Figure 65: RCOM's 12M forward P/E (consensus)



Source: Datastream, Bloomberg

Figure 66: RCOM's 12M forward EV/EBITDA (consensus)



Source: Datastream, Bloomberg

Figure 67: Idea's 12M forward P/E (consensus)

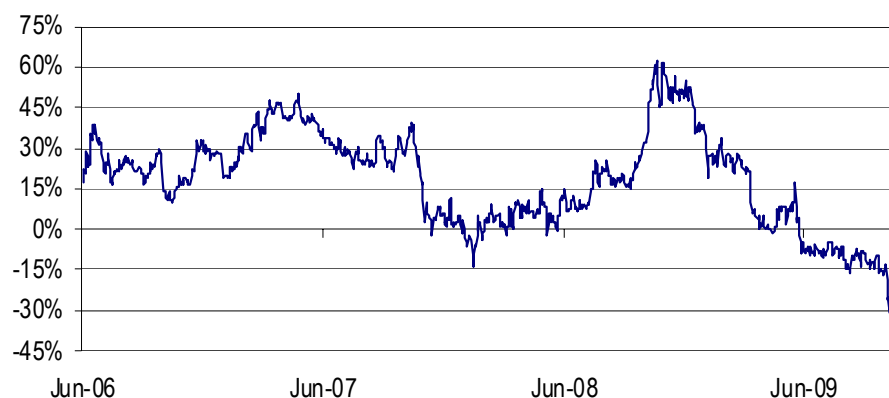


Source: Datastream, Bloomberg

Figure 68: Idea's 12M forward EV/EBITDA (consensus)



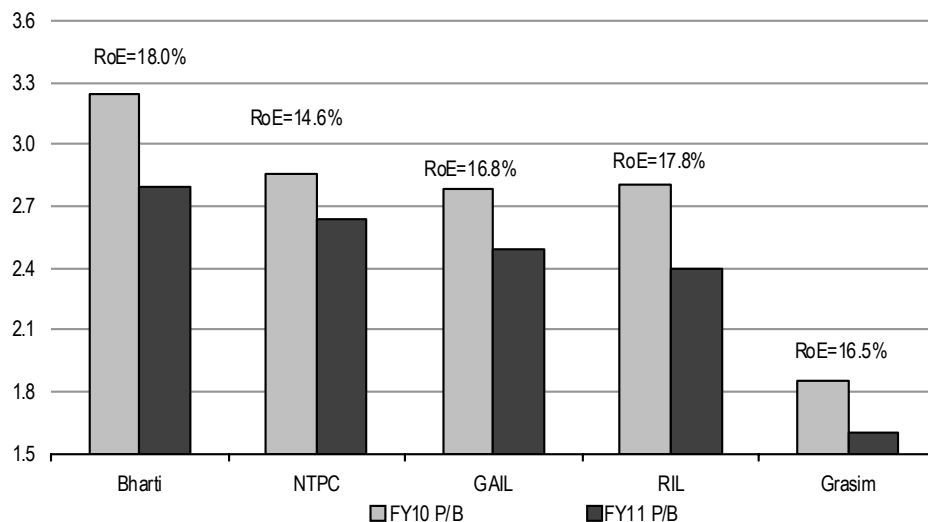
Source: Datastream, Bloomberg

Figure 69: Bharti's versus MSCI India's 12M forward P/E

Source: Bloomberg, Datastream

Have the stocks been punished too much?

Comparing Bharti to large Indian firms in other sectors with similar growth and profitability profiles, we observe that the company is still trading at a premium in terms of P/B.

Figure 70: Bharti's P/B is higher than that for firms with similar ROE

Source: Company data, Credit Suisse estimates

Asia Pacific / India
Integrated Telecommunication Services (IT Services) / MARKET WEIGHT

Bharti Airtel

(BRTI.BO / BHARTI IN)

Rating	UNDERPERFORM*
Price (20 Oct 09, Rs)	328.00
Target price (Rs)	(from 375.00) 290.00 ¹
Chg to TP (%)	-11.6
Market cap. (Rs mn)	1,245,364 (US\$ 26,918)
Enterprise value (Rs mn)	1,287,217
Number of shares (mn)	3,796.84
Free float (%)	32.60
52-week price range	501.60 - 267.22

*Stock ratings are relative to the relevant country benchmark.

¹Target price is for 12 months.

Research Analysts

Bhuvnesh Singh

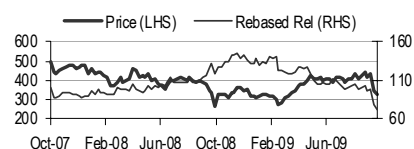
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A price war does impact market leaders

- **Cut EPS estimates:** We cut our EPS estimates for Bharti by 8-22% over FY10 through FY12. This follows our 5-9% EPS cut on 1 October. Our DCF-based target price is now Rs290 (Rs375 previously), implying 11% downside from current levels. We retain our UNDERPERFORM rating on the stock.
- **Eroding profitability:** While we continue to like the company for its strong execution and market leadership, we would be wary of competitive impact over the next 12-18 months. We build for a 36% RPM decline from FY3/09 through FY3/12 leading to a 754 bp mobile EBITDA margin decline, as rising competition erodes sector's profitability. Risks from competition more than outweigh any reward at this stage of the industry, in our view.
- **Deterioration in operating metrics:** The much feared price war in the sector has already begun and the financial impact should be visible in the next three-six months, in our view. A sharp deterioration in operating metrics should lead to consensus downgrades with a negative impact on the share price.
- **Not cheap:** At 15x P/E and 9x EV/EBITDA on FY3/11E, we believe Bharti is not cheap, especially given that the company could have a YoY EPS decline in FY3/11E. The ROE of 18% also does not support P/B of 3x FY3/11E, in our view.

Share price performance



The price relative chart measures performance against the BOMBAY SE 30 SHARE SENSITIVE index which closed at 17223.01 on 20/10/09

On 20/10/09 the spot exchange rate was Rs46.26/US\$1

Performance Over	1M	3M	12M
Absolute (%)	-25.8	-22.7	-7.4
Relative (%)	-27.9	-31.9	-45.0

Financial and valuation metrics

Year	3/09A	3/10E	3/11E	3/12E
Revenue (Rs mn)	369,615.0	408,270.1	429,167.6	497,467.5
EBITDA (Rs mn)	150,084.6	160,968.3	148,578.2	170,984.7
EBIT (Rs mn)	104,096.6	105,487.9	92,865.2	109,657.8
Net income (Rs mn)	84,698.6	93,729.5	82,652.0	94,607.0
EPS (CS adj., Rs)	22.34	24.72	21.80	24.95
Change from previous EPS (%)	n.a.	-7.8	-21.6	-22.1
Consensus EPS	n.a.	25.93	27.96	31.49
EPS growth (%)	26.3	10.7	-11.8	14.5
P/E (x)	14.7	13.3	15.0	13.1
Dividend yield (%)	0.6	1.1	1.7	3.0
EV/EBITDA (x)	8.8	8.0	8.7	7.3
P/B (x)	4.1	3.2	2.8	2.5
ROE	26.9	23.6	18.0	18.3
Net debt/equity (%)	25.1	10.9	12.1	1.4

Source: Company data, Thomson Financial Datastream, Credit Suisse estimates.

Figure 71: Bharti Airtel: Summary financials

(Rs mn)	FY3/07A	FY3/08A	FY3/09A	FY3/10E	FY3/11E	FY3/12E
Income statement						
Revenues	185,195	270,250	369,615	408,270	429,168	497,468
Total access and interconnect costs	31,378	41,110	52,903	39,540	47,521	54,954
License fee and spectrum charges	16,953	26,900	38,266	40,856	41,438	47,065
EBITDA	74,508	113,225	150,085	160,968	148,578	170,985
EBIT	49,289	76,454	104,097	105,488	92,865	109,658
Profit before tax	48,859	76,535	93,073	112,666	102,985	118,711
Profit after tax	43,037	68,157	86,458	95,766	84,448	95,563
Net income	42,570	67,007	84,699	93,730	82,652	94,607
Balance sheet						
Cash and short-term investments	10,331	57,940	60,699	102,568	98,063	152,327
Receivables and other current assets	34,513	55,842	83,379	87,817	86,520	95,887
Total current assets	44,844	113,782	144,079	190,385	184,583	248,215
Gross fixed assets	320,093	461,546	603,093	701,685	738,968	840,705
Net fixed assets	249,086	353,655	449,498	492,609	474,180	514,589
Total assets	297,891	472,644	603,947	693,269	742,500	854,812
Total current liabilities	106,650	154,135	217,185	217,300	195,246	242,339
Total long-term liabilities	53,885	92,910	72,113	79,613	87,113	94,613
Total equity	135,553	222,585	303,945	383,615	445,604	502,368
Minority interest	1,801	3,013	10,704	12,740	14,536	15,492
Total liabilities	297,889	472,643	603,947	693,269	742,500	854,812
Cash flow statement						
Net income	42,570	67,007	84,699	93,730	82,652	94,607
Depreciation	24,544	36,273	49,722	55,480	55,713	61,327
Interest expenses	1,438	2,341	11,613	-2,696	-5,746	-1,399
Other income (net)	-1,008	-2,422	-589	-4,482	-4,374	-7,654
Change in working capital	22,443	17,733	-9,947	-4,322	-20,757	37,725
Change in other non-current liabilities	947	2,846	2,925	-	-	-
Cash flow from operation	90,934	123,778	138,423	137,710	107,488	184,605
Change in investments	448	-54	-20	-1,982	-73,045	-6,904
Change in fixed asset	-92,843	-140,842	-145,565	-98,591	-37,283	-101,737
Change in other asset	-649	-1,192	-5,143	2,076	-418	-1,366
Other income (net)	1,008	2,422	589	4,482	4,374	7,654
Cash flow from investing	-92,036	-139,666	-150,139	-94,015	-106,372	-102,353
Change in debt and liabilities	5,066	44,602	21,738	7,500	7,500	7,500
Change in equity reserves	1,090	20,025	4,246	-	-	-
Interest expenses	-1,438	-2,341	-11,613	2,696	5,746	1,399
Change in minority interest	850	1,212	7,691	2,036	1,796	956
Cash flow from financing	5,568	63,498	14,477	-1,827	-5,622	-27,988
Change in cash	4,466	47,610	2,761	41,868	-4,505	54,264

Source: Company data, Credit Suisse estimates

Figure 72: Bharti Airtel: Key ratios

	FY3/07A	FY3/08A	FY3/09A	FY3/10E	FY3/11E	FY3/12E
Margins (%)						
EBITDA margins	40.2	41.9	40.6	39.4	34.6	34.4
EBIT margins	26.6	28.3	28.2	25.8	21.6	22.0
Net profit margins	23.0	24.8	22.9	23.0	19.3	19.0
YoY growth (%)						
Revenue growth	59.4	45.9	36.8	10.5	5.1	15.9
EBITDA growth	71.2	52.0	32.6	7.3	-7.7	15.1
EBIT growth	78.1	55.1	36.2	1.3	-12.0	18.1
Net profit growth	87.0	57.4	26.4	10.7	-11.8	14.5
Return ratios (%)						
ROE	37.4	37.4	32.2	27.3	19.9	20.0
ROIC	25.4	28.4	27.3	21.8	16.5	17.9
Turns ratios (x)						
Working capital turns	-3.70	-3.86	-5.00	-6.11	-7.90	-7.92
Fixed asset turns	0.86	0.90	0.92	0.87	0.89	1.01
Other ratios						
Net debt/ equity	40.2	24.4	25.1	10.9	12.1	1.4
Gross debt/ equity	38.7	43.6	39.1	32.9	30.0	28.1
Interest cover	16.2	18.9	3.8	48.8	37.8	24.5

Source: Company data, Credit Suisse estimates

Figure 73: Bharti Airtel: Key assumptions for the mobile segment

	FY3/07A	FY3/08A	FY3/09A	FY3/10E	FY3/11E	FY3/12E
Subscribers (mn)	37.1	62.0	93.9	126.4	151.4	172.4
Market share (%)	22.9%	23.7%	24.0%	23.4%	23.0%	22.9%
ARPU (Rs/sub/month)	415	366	325	243	195	193
Revenue per minute (Rs/min)	0.93	0.76	0.64	0.52	0.42	0.41
MoU (min)	448	483	510	471	461	475
Revenues (Rs mn)	141,442	217,861	303,601	321,826	324,636	374,612
EBITDA (Rs mn)	53,253	87,717	113,860	117,192	104,203	123,420
EBITDA margin (%)	37.7	40.1	35.4	33.2	28.9	29.4
Capex (Rs mn)	72,187	108,400	101,311	90,900	85,774	82,742

Source: Company data, Credit Suisse estimates; Note: EBITDA, capex calculations include tower business

Figure 74: Bharti Airtel: SOTP

Business	Value (Rs/share)
Mobile	164
Tower + Indus	62
B'band and fixed	41
Enterprise	104
Eliminations	-60
Cash	-17
Total	294

Source: Company data, Credit Suisse estimates

Asia Pacific / India
Integrated Telecommunication Services (IT Services) / MARKET WEIGHT

Reliance Communication

(RLCM.BO / RCOM IN)

Rating	UNDERPERFORM* [V]
Price (20 Oct 09, Rs)	230.90
Target price (Rs)	(215) 180.00 ¹
Chg to TP (%)	-22.0
Market cap. (Rs mn)	476,584 (US\$ 10,301)
Enterprise value (Rs mn)	817,183
Number of shares (mn)	2,064.03
Free float (%)	33.70
52-week price range	354.40 - 132.25

*Stock ratings are relative to the relevant country benchmark.

¹Target price is for 12 months.

[V] = Stock considered volatile (see Disclosure Appendix).

Research Analysts

Bhuvnesh Singh

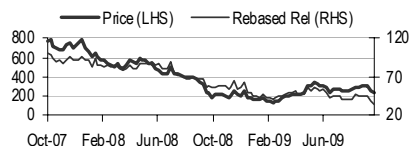
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Earnings decline for two years?

- **Lower target price:** We cut our EPS estimate 21% for FY3/10 and 36% for FY11-12. We have lowered our DCF-based target price from Rs215 to Rs180. We retain UNDERPERFORM rating on the stock.
- **Aggressive price cuts (either proactive or reactive) are bound to impact** RCOM's already weak balance sheet. We build sharp price cuts (33% from FY09 to FY12) leading to mobile EBITDA margin erosion of 720 bp. We thus expect EPS to decline in FY10 and FY11 by 31% and 5%, respectively. Our ROE estimates remain below 10% for the next three years.
- **Weakening of operating metrics.** The company's tower business depends largely on new players and hence could have a weak medium-term model. Further, with 3G auction happening in India in the next 12 months, the increased need for cash could further stress the balance sheet (current net debt/EBITDA is 3.0).
- **RCOM could have two years of YoY EPS declines by FY3/11**, which would make it difficult to support a P/E of 12x. Its book value is significantly inflated by revaluations and goodwill (54% of book) and hence is unlikely to provide support. We thus maintain our UNDERPERFORM rating.

Share price performance



The price relative chart measures performance against the BOMBAY SE 30 SHARE SENSITIVE index which closed at 17223.01 on 20/10/09

On 20/10/09 the spot exchange rate was Rs46.26/US\$1

Performance Over	1M	3M	12M
Absolute (%)	-24.4	-14.4	-0.5
Relative (%)	-26.5	-24.5	-40.9

Financial and valuation metrics

Year	3/09A	3/10E	3/11E	3/12E
Revenue (Rs mn)	229,484.6	253,902.5	295,116.3	355,158.1
EBITDA (Rs mn)	93,049.4	97,001.9	111,369.5	130,782.7
EBIT (Rs mn)	56,972.4	51,245.9	62,657.0	78,842.6
Net income (Rs mn)	60,449.3	41,865.1	39,978.7	50,211.3
EPS (CS adj., Rs)	29.29	20.28	19.37	24.33
Change from previous EPS (%)	n.a.	-21.3	-35.0	-35.8
Consensus EPS	n.a.	23.15	24.47	27.39
EPS growth (%)	10.9	-30.7	-4.5	25.6
P/E (x)	7.9	11.4	11.9	9.5
Dividend yield (%)	0.4	0.9	1.3	2.6
EV/EBITDA (x)	8.2	8.4	7.4	6.2
P/B (x)	1.1	1.0	1.0	0.9
ROE	14.3	9.1	8.0	9.3
Net debt/equity (%)	66.1	72.3	67.6	61.0

Source: Company data, Thomson Financial Datastream, Credit Suisse estimates.

Figure 75: RCOM: Summary financials

(Rs mn)	FY3/07A	FY3/08A	FY3/09A	FY3/10E	FY3/11E	FY3/12E
Income statement						
Revenues	144,683	190,678	229,485	253,903	295,116	355,158
Total access and interconnect costs	37,822	38,223	40,055	37,890	49,584	65,215
EBITDA	57,210	81,989	93,049	97,002	111,369	130,783
EBIT	32,557	53,935	56,972	51,246	62,657	78,843
Profit before tax	32,553	57,933	62,042	46,843	45,219	58,055
Profit after tax	31,942	55,097	62,560	43,564	41,601	52,249
Net income	31,640	54,010	60,449	41,865	39,979	50,211
Balance sheet						
Cash and short-term investments	137,200	118,778	112,486	122,853	135,154	154,023
Receivables and other current assets	59,063	97,035	130,316	144,182	167,585	201,681
Total current assets	196,263	215,814	242,802	267,035	302,740	355,704
Gross fixed assets	386,363	648,341	920,412	1,050,790	1,134,074	1,227,068
Net fixed assets	330,423	558,780	779,268	863,890	898,461	939,516
Total assets	538,611	774,593	1,022,070	1,130,925	1,201,201	1,295,219
Total current liabilities	179,186	200,776	200,814	205,291	224,963	269,285
Total long-term liabilities	155,438	259,245	391,904	456,904	471,904	481,904
Total equity	203,928	290,263	422,803	462,181	497,785	537,481
Minority interest	59	24,309	6,549	6,549	6,549	6,549
Total liabilities	538,611	774,593	1,022,070	1,130,925	1,201,201	1,295,219
Cash flow statement						
Net income	31,640	54,010	60,449	41,865	39,979	50,211
Depreciation	8,367	33,621	51,583	45,756	48,712	51,940
Interest expenses	4	-3,998	-5,070	17,207	17,438	20,788
Change in working capital	66,565	-16,382	-33,243	-9,389	-3,732	10,227
Cash flow from operation	106,560	68,279	72,974	82,635	102,398	133,166
Change in fixed asset	-124,527	-261,978	-272,071	-130,377	-83,284	-92,994
Cash flow from investing	-124,527	-261,978	-272,071	-130,377	-83,284	-92,994
Change in debt and liabilities	52,107	102,779	133,406	65,000	15,000	10,000
Interest expenses	-4	3,998	5,070	-17,207	-17,438	-20,788
Cash flow from financing	106,934	163,352	192,806	45,306	-6,813	-21,303
Change in cash	88,967	-30,347	-6,292	-2,437	12,301	18,869

Source: Company data, Credit Suisse estimates

Figure 76: RCOM: Key ratios

	FY3/07A	FY3/08A	FY3/09A	FY3/10E	FY3/11E	FY3/12E
Margins (%)						
EBITDA margins	39.5	43.0	40.5	38.2	37.7	36.8
EBIT margins	22.5	28.3	24.8	20.2	21.2	22.2
Net profit margins	21.9	28.3	26.3	16.5	13.5	14.1
YoY growth (%)						
Revenue growth	34.4	31.8	20.4	10.6	16.2	20.3
EBITDA growth	131.3	43.3	13.5	4.2	14.8	17.4
EBIT growth	318.2	65.7	5.6	-10.1	22.3	25.8
Net profit growth	563.6	70.7	11.9	-30.7	-4.5	25.6
Return ratios (%)						
ROE	19.7	21.9	17.0	9.5	8.3	9.7
ROIC	17.1	15.4	9.8	5.9	6.3	7.5
Turns ratios (x)						
Working capital turns	-1.20	-1.84	-3.26	-4.15	-5.14	-5.25
Fixed asset turns	0.53	0.43	0.34	0.31	0.33	0.39
Other ratios						
Net debt/ equity	8.9	48.4	66.1	72.3	67.6	61.0
Interest cover	8,139.3	(13.5)	(11.2)	2.2	2.7	2.7

Source: Company data, Credit Suisse estimates

Figure 77: RCOM: Key mobile assumptions

	FY3/07A	FY3/08A	FY3/09A	FY3/10E	FY3/11E	FY3/12E
Subscribers (mn)	28.0	45.8	72.7	99.2	120.1	137.4
Market share (%)	17.8%	17.5%	18.5%	18.4%	18.2%	18.3%
CDMA subs/total subs	87.9%	84.7%	75.0%	60.0%	50.0%	40.0%
ARPU (Rs/sub/month)	371	344	244	183	153	150
Revenue per minute (Rs/min)	0.74	0.74	0.63	0.51	0.43	0.42
MoU (min/sub/month)	503	464	389	361	356	358
Revenues (Rs mn)	107,276	152,135	173,676	188,589	201,508	231,520
EBITDA (Rs mn)	39,843	60,854	66,726	68,364	64,374	72,215
EBITDA margin (%)	37	40	38	36	32	31
Capex (Rs mn)	45,469	171,705	139,778	97,510	55,831	69,975

Source: Company data, Credit Suisse estimates. Note: EBITDA, capex calculations include tower business

Figure 78: RCOM: SOTP

Business	Value (Rs/share)
Mobile	13
Tower	209
Broadband	66
Global	86
Eliminations	- 32
Cash	- 162
Total	182

Source: Company data, Credit Suisse estimates

Asia Pacific / India
Wireless Telecommunication Services (IT Services) / MARKET WEIGHT

Idea Cellular

(IDEA.BO / IDEA IN)

Rating (from Neutral) **UNDERPERFORM*** [V]
Price (20 Oct 09, Rs) 62.00
Target price (Rs) (72.5) 45.00¹
Chg to TP (%) -27.4
Market cap. (Rs mn) 192,206 (US\$ 4,154)
Enterprise value (Rs mn) 231,459
Number of shares (mn) 3,100.10
Free float (%) 25.00
52-week price range 87.30 - 36.90

*Stock ratings are relative to the relevant country benchmark.

¹Target price is for 12 months.

[V] = Stock considered volatile (see Disclosure Appendix).

Research Analysts

Bhuvnesh Singh

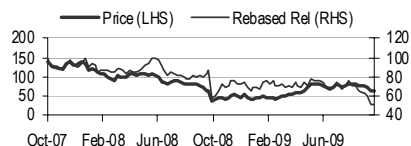
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The most vulnerable of them all

- **We reduce our EPS estimates by 20-66%** over FY3/10 through FY3/12. We lower our DCF-based target price from Rs72.5 to Rs45, implying 27% downside from current levels. We downgrade our rating on the stock to UNDERPERFORM from Neutral.
- **Idea is probably the most vulnerable of the listed Indian telecom companies** due to: 1) it being a new entrant in nearly half of circles and 2) a lack of scale in the non-mobile businesses to cushion profitability erosion in the mobile business. We thus build 482 bp consolidated EBITDA margin erosion from FY09 to FY12, leading to sub-6% ROE for the company.
- **EPS to bottom:** Sharp earnings declines in the coming quarters could see Idea's EPS bottoming only in FY3/11. In the interim, we expect consensus earnings cuts of up to 16-52% for the next three years.
- **We find Idea's valuation expensive** at 37x FY3/11E P/E and 8x EV/EBITDA, considering the sharp earnings decline expected in the next two years. We downgrade the stock from Neutral to UNDERPERFORM.

Share price performance



The price relative chart measures performance against the BOMBAY SE 30 SHARE SENSITIVE index which closed at 17223.01 on 20/10/09

On 20/10/09 the spot exchange rate was Rs46.26/US\$1

Performance Over	1M	3M	12M
Absolute (%)	-19.2	-17.2	0.3
Relative (%)	-21.4	-27.0	-40.5

Financial and valuation metrics

Year	3/09A	3/10E	3/11E	3/12E
Revenue (Rs mn)	101,252.4	125,971.6	130,284.3	150,006.2
EBITDA (Rs mn)	28,299.7	31,687.6	30,270.4	40,237.3
EBIT (Rs mn)	14,260.6	13,422.9	9,624.6	18,054.8
Net income (Rs mn)	9,009.7	9,161.0	5,494.5	11,960.2
EPS (CS adj., Rs)	3.14	2.78	1.67	3.63
Change from previous EPS (%)	n.a.	-20.0	-66.0	-45.6
Consensus EPS	n.a.	3.29	3.54	3.98
EPS growth (%)	-28.9	-11.5	-40.0	117.7
P/E (x)	19.7	22.3	37.2	17.1
Dividend yield (%)	—	—	—	0.14
EV/EBITDA (x)	8.1	7.3	8.0	5.9
P/B (x)	1.3	1.0	1.0	1.0
ROE	6.5	4.7	2.7	5.6
Net debt/equity (%)	27.4	20.0	25.3	20.6

Source: Company data, Thomson Financial Datastream, Credit Suisse estimates.

Figure 79: Idea: Financial summary

(Rs mn)	FY3/07A	FY3/08	FY3/09A	FY3/10E	FY3/11E	FY3/12E
Income statement						
Revenues	43,500	67,200	101,252	125,972	130,284	150,006
EBITDA	14,653	22,518	28,300	31,688	30,270	40,237
EBITDA margins	33.7	33.5	27.9	25.2	23.2	26.8
EBIT	9,016	14,949	14,261	13,423	9,625	18,055
EBIT margins	20.7	22.2	14.1	10.7	7.4	12.0
Profit before tax	6,174	12,347	9,372	9,958	6,244	13,907
Profit after tax	6,104	11,622	9,010	9,161	5,495	11,960
EPS (Rs)	2.66	4.42	3.14	2.78	1.67	3.63
Balance sheet						
Cash and equivalents	18,199	4,975	51,316	34,912	33,079	40,056
Receivables and other current assets	6,461	10,525	28,154	28,183	29,148	33,560
Total current assets	24,661	15,500	79,470	63,095	62,227	73,616
Gross fixed assets	70,627	110,141	211,471	269,092	307,986	338,043
Net fixed assets	44,254	78,899	151,489	190,845	209,094	216,968
Total assets	85,823	127,623	267,451	320,045	337,426	356,690
Total current liabilities	21,520	27,022	40,000	49,374	51,261	58,851
Total long term liabilities	42,505	65,154	89,165	74,165	84,165	84,165
Total equity	21,798	35,455	138,286	196,506	202,001	213,673
Total liabilities	85,823	127,632	267,451	320,045	337,426	356,690
Cash flow statement						
Net income	6,104	11,622	9,010	9,161	5,495	11,673
Depreciation	5,541	4,870	17,763	18,265	20,646	22,183
Interest expenses	3,051	2,776	4,943	4,492	4,079	5,471
Other income (net)	-209	-175	-55	-1,026	-698	-1,323
Change in working capital	7,240	1,438	-4,651	9,344	922	3,178
Cash flow from operation	21,727	20,532	27,010	40,235	30,443	41,181
Change in investments	-12	-5,548	5,560	-	-	-
Change in fixed asset	-27,872	-50,933	-63,528	-38,175	-38,895	-30,057
Change in other asset	11,554	651	-35,653	-49,059	-	-
Other income (net)	209	175	55	1,026	698	1,323
Cash flow from investing	-16,121	-55,655	-93,566	-86,207	-38,197	-28,734
Change in debt and liabilities	9,649	22,649	24,011	-15,000	10,000	-
Change in equity reserves	4,503	2,035	93,821	49,059	0	-
Interest expenses	-3,051	-2,776	-4,943	-4,492	-4,079	-5,471
Cash flow from financing	11,101	21,908	112,889	29,567	5,921	-5,471
Change in cash	16,707	-13,216	46,333	-16,405	-1,832	6,976

Source: Company data, Credit Suisse estimates

Figure 80: Idea: Key ratios

	FY3/07A	FY3/08A	FY3/09A	FY3/10E	FY3/11	FY3/12
Margins (%)						
EBITDA margins	33.7	33.5	27.9	25.2	23.2	26.8
EBIT margins	20.7	22.2	14.1	10.7	7.4	12.0
Net profit margins	14.0	17.3	8.9	7.3	4.2	8.0
YoY growth (%)						
Revenue growth	46.7	54.5	50.7	24.4	3.4	15.1
EBITDA growth	37.3	53.7	25.7	12.0	-4.5	32.9
EBIT growth	44.9	65.8	-4.6	-5.9	-28.3	87.6
Net profit growth	93.1	90.4	-22.5	1.7	-40.0	117.7
Return ratios (%)						
ROE (average)	37.0	40.6	10.4	5.5	2.8	5.8
ROE(End of Period)	28.0	32.8	6.5	4.7	2.7	5.6
ROIC	16.9	18.3	8.7	5.3	3.0	5.4
Turns ratios (x)						
Working capital turns	-5.1	-6.0	-15.3	-24.4	-14.7	-15.5
Fixed asset turns	1.2	1.1	0.9	0.7	0.7	0.7
Other ratios						
Net debt/ equity	1.1	1.7	0.3	0.2	0.3	0.2
Gross debt/ equity	1.9	1.8	0.6	0.4	0.4	0.4
Interest cover	3.0	5.4	2.9	3.0	2.4	3.3

Source: Company data, Credit Suisse estimates

Figure 81: Idea: Key mobile assumptions

	FY3/07A	FY3/08A	FY3/09A	FY3/10E	FY3/11	FY3/12
Subscribers (mn)	14.0	24.0	43.0	59.5	71.8	80.9
Market share (%)	8.6	9.2	11.0	11.0	10.9	10.8
ARPU (Rs/sub/month)	332	295	248	194	157	155
Revenue per minute (Rs/min)	0.91	0.76	0.60	0.49	0.41	0.39
MoU (min)	364	388	416	395	387	399
Revenues (Rs mn)	43,500	67,200	101,252	119,275	123,714	141,797
EBITDA (Rs mn)	14,384	21,793	29,319	28,707	23,148	31,236
EBITDA margin (%)	33.1	32.4	29.0	24.1	18.7	22.0
Capex (Rs mn)	20,961	21,082	64,406	38,175	22,694	30,057

Source: Company data, Credit Suisse estimates; Note: EBITDA, capex calculations include tower business

Figure 82: Idea: SOTP

Business	Value (Rs/share)
Mobile	40
Tower	29
Eliminations	-13
Cash	-12
Total	44

Source: Company data, Credit Suisse estimates

Etisalat DB

Parentage

Etisalat DB is 45% owned by Etisalat, a UAE-based telecommunications services provider, currently operating in 17 countries across Asia, the Middle East and Africa.

Figure 85: Etisalat (consolidated)

	Dec 08	Dec 09	Dec 10
Revenues (US\$ mn)	7,111	7,913	8,493
YoY growth (in local currency) (%)	22	11	7
EBITDA margin (%)	35	66	n.a.
Free cash flow (EBITDA – capex) (US\$ mn)	1,471	n.a.	n.a.

Source: Company data, Bloomberg

The remaining 55% is held by several entities, including the company's main promoter, which is controlled by the Dynamix Balwas (DB Group), a Mumbai-based real estate and hospitality business group. The company holds universal access service licences (UASLs) in 15 telecom circles in India.

Strategy/recent news

The company has entered into a tower sharing agreement with Reliance Infratel for 30,000 sites and has outsourced IT operations to Tech Mahindra for a consideration of US\$400mn over 10 years.

Loop Mobile

Parentage

It was earlier named BPL Mobile Communications and is owned by the Essar Group that has interests in steel, energy, communications, shipping ports and logistics and construction.

Strategy/recent news

It recently hired new CEO, Sandip Basu. Loop Mobile's subsidiary Loop Telecom launched pan-India operations under Loop Mobile in Tamil Nadu, Karnataka, Kerala and Orissa recently. It launched a new service called 'epaid,' which provides itemised billing to prepaid customers. Currently, all other operators provide the facility of itemised billing only to post-paid customers.

S Tel

Parentage

S Tel is 51% owned by Siva Group, led by C. Sivasankaran, a famous Indian investor. Siva Group is a US\$3 bn group, with diversified business interests in sectors such as telecommunications, renewable energy, shipping, logistics, hospitality, realty, media, EPC and agro.

The remaining 49% is owned by Bahrain Telecommunications Co. Ltd (Batelco). Batelco is a diversified, integrated telecommunications operator with mobile, fixed and wireless broadband, datacom and fixed line services. This company is listed on the Bahrain Stock Exchange, and has the Bahrain Government as its principal shareholder.

Figure 86: Batelco (consolidated)

Batelco	Dec 08	Dec 09	Dec 10
Revenues (US\$ mn)	847	920	950
YoY growth (in local currency) (%)	9	9	3
EBITDA margin (%)	45	43	n.a.
Free cash flow (EBITDA – capex) (US\$ mn)	258	n.a.	n.a.

Source: Company data, Bloomberg

The company has acquired Unified Access Services Licenses (UASL) and spectrum to operate in six Indian circles — Orissa, Bihar, Himachal Pradesh, the North-East, Assam and J&K – and plans to apply for the remaining circles. The company has also obtained 'category A' all-India ISP licence for providing nation-wide services.

Sistema-Shyam

Parentage

Sistema is the largest diversified consumer services corporation in Russia and the CIS serving more than 100 mn consumers. Sistema's main asset is Mobile Telesystems, Russia's No.1 cell phone operator.

Figure 87: Sistema (consolidated)

Sistema	Dec 08	Dec 09	Dec 10
Revenues (US\$ mn)	17,177	15,495	17,979
YoY growth (in local currency) (%)	26	-10	16
EBITDA margin (%)	34	30	31
Free cash flow (EBITDA – capex) (US\$ mn)	1,425	n.a.	n.a.

Source: Company data, Bloomberg

Figure 88: Mobile Telesystems

MTS	Dec 08	Dec 09	Dec 10
Revenues (US\$ mn)	10,245	8,074	8,175
YoY growth (in local currency) (%)	24	-21	1
EBITDA margin (%)	50	47	45
Free cash flow (EBITDA – capex) (US\$ mn)	2,878	n.a.	n.a.

Source: Company data, Bloomberg

Shyam Telelinks previously offered mobile services in Rajasthan under the 'Rainbow' brand.

Strategy/recent news

- Sistema currently has close to 2 mn subscribers (August 2009) across six circles. It currently has a pan-India market share of 0.4% (August 2009)
- The choice of CDMA over GSM was driven by a belief that after two to three years, the future in mobile telephony would lie in data services, for which CDMA is very well suited and CDMA on 800 MHz is much more cost and capex efficient than the only GSM alternative available – 1,800 MHz spectrum.
- The company intends to reach pan-India coverage by September 2010. There are four operational circles currently, with plans to add two to three circles every quarter.
- The company targets 10%-plus share of net adds, with a long-term (five-year) subscriber market share target of 7-8%. With these targets, management hopes to achieve EBITDA break-even by September 2013.
- Out of the initial five-six-year India investment plan of US\$5.5 bn, the company has already spent US\$1.2 bn-plus. The rest should come through vendor financing, equity infusion/dilution and domestic debt.

- Sistema-Shyam gives high importance to rural operations. The company intends to use simple tariff structures (probably just one or two tariff plans) in local languages, for the rural areas. The company has tied up with Samsung for affordable handsets.
- In addition to attractive pricing, Sistema-Shyam would compete on network quality, customer experience and distribution reach.

Uninor

Parentage

Telenor is a Norway-based communications, IT and media company. It has 168 mn mobile subscribers worldwide (quarter ended June 2009) with operations in 13 countries. The Unitech group is one of India's largest developers of real estate.

Figure 89: Unitech Group (consolidated)

	Mar 09	Mar 10E	Mar 11E	Mar 12E
Revenues (US\$ mn)	571	635	825	1,064
YoY growth (in local currency) (%)	-30	3	30	29
EBITDA margin (%)	55	48	45	45
Free cash flow (EBITDA - capex) (US\$ mn)	-222	-396	23	297

Source: Company data, Credit Suisse estimates, Bloomberg

Figure 90: Telenor

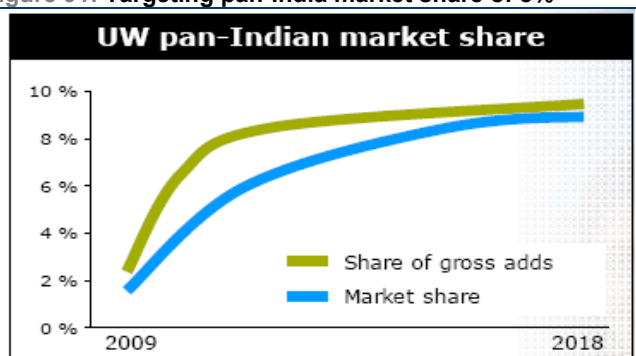
	Dec-09	Dec-10E	Dec-11E	Dec-12E
Revenues (US\$ mn)	13,972	17,536	17,732	18,511
YoY growth (in local currency) (%)	6	3	1	4
EBITDA margin (%)	30	30	28	29
Free cash flow (EBITDA - capex) (US\$ mn)	1,189	1,650	1,826	2,026

Source: Company data, Credit Suisse estimates, Bloomberg

Strategy/recent news

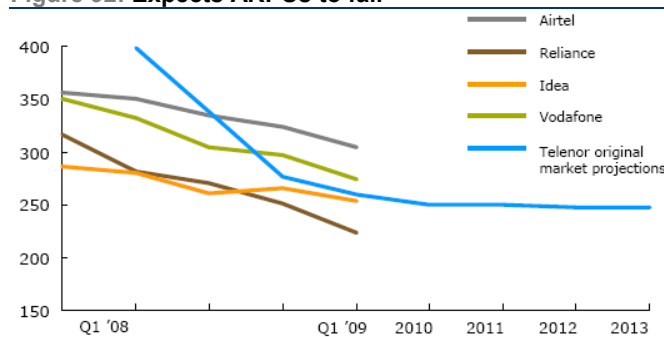
- The company targets a pan-India market share of 8% and is willing to have ARPUs sub-market in the initial years.
- Compared with its earlier outlook of stable-to-improving ARPUs in India going forward, the company now expects declining ARPUs for some more years. We read this as a possibility of greater under-pricing than earlier planned.

Figure 91: Targeting pan-India market share of 8%



Source: Company data

Figure 92: Expects ARPUs to fall



Source: Company data

- The company is targeting the launch of operations by December 2009 quarter. It has already installed 8,500 BTS (about 18% of Idea's current installed base), recruited 900 people including senior management positions and shortlisted distributors and vendors for outsourcing. The rollout would be restricted to cities initially.

- Uninor intends to invest US\$3 bn in the operations before breaking even on cash flows. The recent funding gives ready visibility to close to US\$2.3 bn of this, with other funding arrangements being worked out.
- The company has signed a deal with Wireless-TT Infoservices Ltd (WTTIL), the tower arm of Tata Teleservices Limited, and Quippo Telecom Infrastructure Ltd (QTIL), under which Uninor will lease tower infrastructure from WTTIL and QTIL across India

Companies Mentioned (Price as of 21 Oct 09)

Advanced Info Service PCL (ADVA.BK, Bt90.00, OUTPERFORM, TP Bt133.00)
 Aegis Group (AEGS.L, p118.00, NEUTRAL, TP p85.00, OVERWEIGHT)
 Alcatel-Lucent (ALUA.PA, Eu3.13, NEUTRAL [V], TP Eu3.00, MARKET WEIGHT)
 Axiata Group Berhad (AXIA.KL, RM3.11, OUTPERFORM, TP RM3.30)
 Bahrain Telecom (BTEL.BH, BD.62)
 Bakrie Telecom PT (BTEL.JK, Rp132.00, UNDERPERFORM [V], TP Rp90.00)
 Bharti Airtel Ltd (BRTI.BO, Rs332.60, UNDERPERFORM, TP Rs290, MARKET WEIGHT)
 China Mobile Limited (0941.HK, HK\$77.25, OUTPERFORM [V], TP HK\$105.00)
 China Unicom Hong Kong Ltd (0762.HK, HK\$10.98, OUTPERFORM [V], TP HK\$13.00)
 DiGi.Com (DSOM.KL, RM21.50, UNDERPERFORM, TP RM19.50)
 Etisalat (ETEL.AD, Dhs12.45, NEUTRAL, TP Dhs11.50)
 Excelcomindo Pratama PT (EXCL.JK, Rp2025.00, OUTPERFORM [V], TP Rp2500.00)
 Far EasTone Telecom (4904.TW, NT\$37.60, OUTPERFORM, TP NT\$42.00)
 GAIL (India) Ltd (GAIL.BO, Rs380.00, OUTPERFORM [V], TP Rs399.00)
 Globe Telecom Inc (GLO.PS, P1005.00, OUTPERFORM, TP P1280.00)
 Grasim Industries (GRAS.BO, Rs2280.15, NEUTRAL [V], TP Rs2716.00)
 Hutchison Telecommunications International Ltd (2332.HK, HK\$1.58, UNDERPERFORM, TP HK\$1.27)
 Idea Cellular Ltd (IDEA.BO, Rs60.50, UNDERPERFORM [V], TP Rs45, MARKET WEIGHT)
 International Business Machines (IBM, \$122.82, NEUTRAL, TP \$110.00)
 LG Telecom (032640.KS, W8,650, OUTPERFORM, TP W10,500)
 Mobile Telesystems (MBT.N, \$54.36, UNDERPERFORM [V], TP \$27.00)
 Mobile-8 Telecom Tbk (FREN.JK, Rp54.00, UNDERPERFORM [V], TP Rp2.00)
 MobileOne Ltd (MONE.SI, S\$1.78, OUTPERFORM, TP S\$2.40)
 *MTN Group (MTNJ.J, R121.68, NEUTRAL [V], TP R92.00)
 NTPC Ltd (NTPC.BO, Rs216.40, NEUTRAL, TP Rs215.00)
 NTT DoCoMo (9437, ¥133,700, NEUTRAL, TP ¥150,000, OVERWEIGHT)
 PT Indosat Tbk (ISAT.JK, Rp5650.00, OUTPERFORM, TP Rp6450.00)
 PT Telkom (Telekomunikasi Indo.) (TLKM.JK, Rp8650.00, NEUTRAL, TP Rp8700.00)
 Reliance Communication Ltd (RLCM.BO, Rs231.40, UNDERPERFORM [V], TP Rs180, MARKET WEIGHT)
 Reliance Industries (RELI.BO, Rs2179.00, OUTPERFORM [V], TP Rs2464.00)
 Singapore Telecom (STEL.SI, S\$3.11, NEUTRAL, TP S\$3.41)
 Sistema (SSAQ.L, \$20.00, OUTPERFORM [V], TP \$5.40)
 SK Telecom (017670.KS, W187,000, OUTPERFORM, TP W230,000)
 SmarTone Telecom (0315.HK, HK\$5.91, UNDERPERFORM, TP HK\$5.70)
 StarHub Ltd (STAR.SI, S\$1.95, NEUTRAL, TP S\$2.37)
 Taiwan Mobile (3045.TW, NT\$59.50, OUTPERFORM, TP NT\$68.00)
 Tata Communications Ltd (TATA.BO, Rs461.10, UNDERPERFORM [V], TP Rs375.00, MARKET WEIGHT)
 Tech Mahindra Limited (TEML.BO, Rs940.90, UNDERPERFORM [V], TP Rs760.00, MARKET WEIGHT)
 Telenor (TEL.OL, NKr72.80, NEUTRAL [V], TP NKr60.00, OVERWEIGHT)
 Total Access Communication PCL (DTAC.BK, Bt39.75, OUTPERFORM, TP Bt58.00)
 True Corp PCL (TRUE.BK, Bt3.48, OUTPERFORM [V], TP Bt3.90)
 Unitech Ltd (UNTE.BO, Rs106.30, OUTPERFORM [V], TP Rs100.00)
 Vodafone Group (VOD.L, p133.55, OUTPERFORM, TP p150.00, OVERWEIGHT)
 Wipro Ltd. (WIPR.BO, Rs586.90, OUTPERFORM [V], TP Rs600.00, MARKET WEIGHT)

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Disclosure Appendix

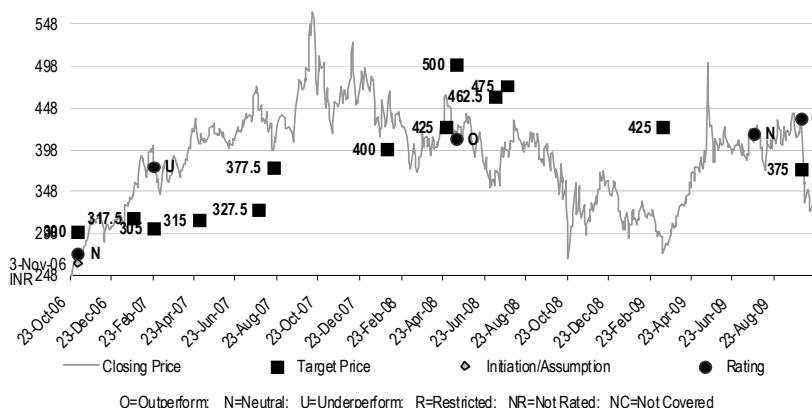
Important Global Disclosures

I, Bhuvnesh Singh, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

See the *Companies Mentioned* section for full company names.

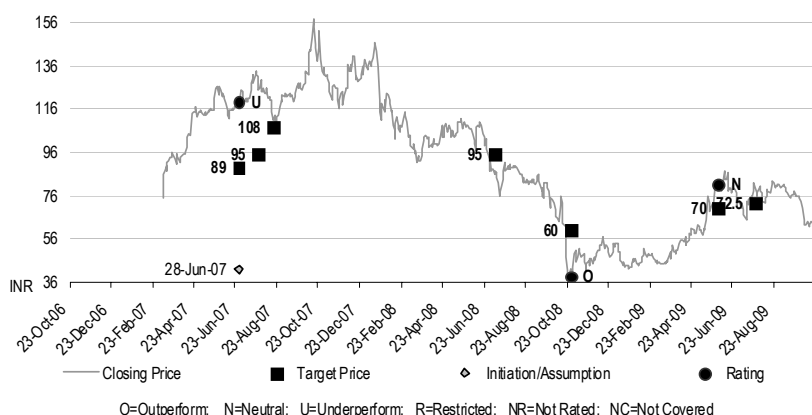
3-Year Price, Target Price and Rating Change History Chart for BRTI.BO

BRTI.BO	Closing Price	Target Price	Initiation/
Date	(INR)	(INR)	Rating Assumption
3-Nov-06	273.325	300	N X
24-Jan-07	343.45	317.5	
23-Feb-07	378.05	305	U
30-Apr-07	406.025	315	
27-Jul-07	446.175	327.5	
17-Aug-07	397.25	377.5	
1-Feb-08	432.225	400	
28-Apr-08	463.925	425	
13-May-08	410.625	500	O
8-Jul-08	355.95	462.5	
25-Jul-08	398.225	475	
13-Mar-09	279.35	425	
24-Jul-09	416.95		N
2-Oct-09	435	375	U



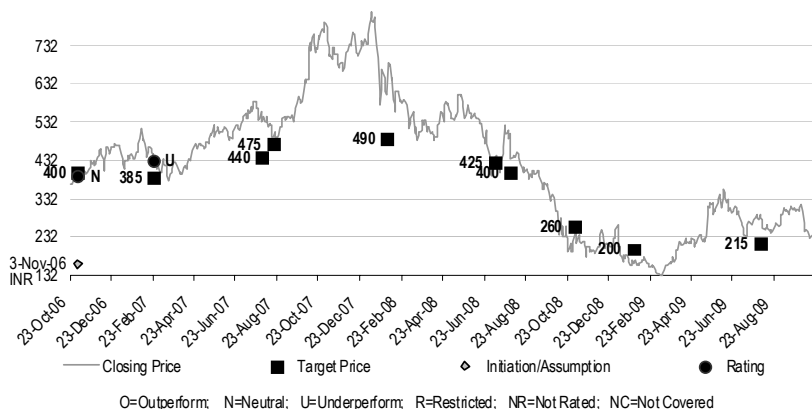
3-Year Price, Target Price and Rating Change History Chart for IDEA.BO

IDEA.B	Closing Price	Target Price	Initiation/
O Date	(INR)	(INR)	Rating Assumption
28-Jun-07	119.35	89	U X
26-Jul-07	131.3	95	
17-Aug-07	110.75	108	
8-Jul-08	85.7	95	
29-Oct-08	38.75	60	O
3-Jun-09	80.9	70	N
27-Jul-09	79.6	72.5	



3-Year Price, Target Price and Rating Change History Chart for RLCM.BO

RLCM.BO	Closing Price	Target Price	Initiation/
Date	(INR)	(INR)	Rating Assumption
3-Nov-06	391	400	N X
23-Feb-07	432.35	385	U
1-Aug-07	530.6	440	
17-Aug-07	493.45	475	
1-Feb-08	601.95	490	
8-Jul-08	415.4	425	
1-Aug-08	436.8	400	
3-Nov-08	232.65	260	
28-Jan-09	166.4	200	
3-Aug-09	291.9	215	



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Outperform (O): The stock's total return is expected to outperform the relevant benchmark* by at least 10-15% (or more, depending on perceived risk) over the next 12 months.

Neutral (N): The stock's total return is expected to be in line with the relevant benchmark* (range of $\pm 10-15\%$) over the next 12 months.

Underperform (U): The stock's total return is expected to underperform the relevant benchmark* by 10-15% or more over the next 12 months.

Relevant benchmark by region: As of 29th May 2009, Australia, New Zealand, U.S. and Canadian ratings are based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. Some U.S. and Canadian ratings may fall outside the absolute total return ranges defined above, depending on market conditions and industry factors. For Latin American, Japanese, and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; for European stocks, ratings are based on a stock's total return relative to the analyst's coverage universe**. For Australian and New Zealand stocks a 22% and a 12% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively, subject to analysts' perceived risk. The 22% and 12% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively, subject to analysts' perceived risk.*

***An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.*

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Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

**An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.*

***The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.*

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Underperform/Sell*	17%	(50% banking clients)
Restricted	2%	

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Price Target: (12 months) for (BRTI.BO)

Method: Our 12-month target price of Rs290 for Bharti Airtel Ltd is based on discounted cash flow (DCF) analysis. We assume a weighted average cost of capital (WACC) of 12 and beta of 0.9. Our DCF model builds in strong cashflow growth till FY3/15, a 5% medium term growth (FY3/15 - FY3/30) and 5% terminal growth. Our target price also includes the value add due to sharing of infrastructure.

Risks: Risks to our 12-month target price of Rs290 for Bharti include slower than expected roll out of operations by new competitors entering the Indian telecom market as also slower than expected drop in pricing

Price Target: (12 months) for (IDEA.BO)

Method: Our 12-month target price of Rs45 for Idea Cellular Limited is based on discounted cash flow (DCF) analysis. We assume a weighted average cost of capital (WACC) of 12.5 and beta of 1.1. Our DCF model builds in negative cash flows for two years, followed by a period of strong cashflow growth till FY3/16, and a 3% terminal growth rate.

Risks: Risks to our 12-month target price of Rs45 for Idea are: 1) execution risk - Idea is entering new circles, where it is the sixth or seventh operator. If marketshare or margins are below our estimates or capex higher than our numbers, it could lead to a downside risk to our target price, 2) market risk - this would include the possibility of irrational competition from some players trying to gain market share, which could negatively impact

margins and returns. 3) economic risk - a slowdown in the Indian economy could slow down subscriber additions. Our model assumes around 9 mn monthly net additions per month for FY09. 4) valuation risk - continuous pressure on telecom stocks or Indian market could keep the share performance weak

Price Target: (12 months) for (RLCM.BO)

Method: Our 12-month target price of Rs180 for Reliance is based on discounted cash flow (DCF) analysis. We assume a weighted average cost of capital (WACC) of 13.1 and beta of 1. Our DCF model builds in strong cashflow growth till FY3/16 and 3% terminal growth. Our target price also includes the value add due to sharing of infrastructure.

Risks: Key risk to our target price of Rs180 for Reliance includes 1) execution risk of the shift to GSM network from CDMA network, 2) stronger than expected margin performance and 3) continuous uptrend in overall market

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