Powered by UBS Evidence Lab

India Telecom Sector

How much market share will Jio achieve as it starts charging?

Equities

India
Wireless Communications

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UBS Evidence Lab survey to gauge how Jio's share will stack up

We partnered with UBS Evidence Lab to estimate how Jio's market share will evolve as it moves from free to paid and what this means for industry competition. While Jio comes out well for its relatively short history, it remains behind peers on network coverage and reliability, the most important attributes highlighted by subscribers. Jio is at par with peers on data speeds and slightly behind in voice quality. Jio's biggest advantage, however, lies in value for money position, but incumbents have followed Jio's promos aggressively, limiting meaningful price window for Jio. We have lowered Jio's RMS estimates for the next 3 years by 1-2ppt given the above.

Quantifying potential synergies from Idea-Vodafone merger

Vodafone and Idea have indicated that combined entity can save Rs84bn annual opex and Rs56bn capex as it benefits from scale, more spectrum and removes duplicate network footprint. Our analysis of the cost structure of the combined entity, comparison of Idea's margins with Bharti and similar comparison between margins and market shares in other Asian markets, coupled with European M&A examples leads us to conclude that the synergy targets, while being aggressive, are achievable.

Modestly lower near-term EBITDA, but higher price targets

We change our earnings models to incorporate: i) near-term ARPU dilution as incumbents counter Jio's summer surprise and prime offers; ii) higher medium-term revenues (FY19 and beyond) as industry consolidation drives improved pricing power; and iii) acquisitions of Telenor and Tikona by Bharti. We also introduce pro-forma estimates for Idea, including consolidation of Vodafone. Our price target for Bharti increases from Rs400 to Rs425. For Idea, our pre-merger DCF value is broadly unchanged at Rs53 (Rs55 previously) as lower short term revenues are offset by lower capex as Idea likely delays capex pending merger. However, our DCF value post Vodafone merger (and including synergies) increases to Rs95. We derive our new price target using post merger value, as we see high likelihood of the deal being approved.

Sector thesis: Buy Bharti, upgrade Idea from Sell to Neutral

We believe industry consolidation, coupled with removal of free offers from Jio should lead to revenue stabilization (and possible recovery from Q1FY18) for the sector. While capex will remain elevated, we believe Bharti (and now Idea, post Vodafone merger) have the spectrum footprint and ability to invest. We prefer Bharti given potential execution risks as Idea and Vodafone work through integration for the next 2-3 years.

India Telecom Valuation Summary

Companies	Stock Price (LC)	Rating		Price Target		Market cap	P/E		EV/EBITDA		EBITDA CAGR	EPS CAGR	ND/ EBITDA
		New	Old	New	Old	(US$b)	FY18E	FY19E	FY18E	FY19E	FY18-21E	FY18-21E	FY17E
Bharti Airtel Ltd	358.20	Buy	Buy	425.00	400.00	22.3	62.3	28.7	7.3	6.4	11.7	59.5	3.0
Idea Cellular	85.50	Neutral	Sell	95.00	55.00	4.8	NM	NM	10.3	9.1	21.4	NM	5.6

Note: March Y/E; Data priced as of 26th April 2017 Source: Reuters, UBS estiamtes,

Contents

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*UBS Evidence Lab *provides our research analysts with rigorous primary research. The team conducts representative surveys of key sector decision-makers, mines the Internet, systematically collects observable data, and pulls information from other innovative sources. They apply a variety of advanced analytic techniques to derive insights from the data collected. This valuable resource supplies UBS analysts with differentiated information to support their forecasts and recommendations—in turn enhancing our ability to serve the needs of our clients.*

Methodology: *For this report, UBS Evidence Lab conducted online survey of ~1,500 respondents in India. The survey was conducted in 8 cities in different states. Respondents are smartphone users and the decision makers/influencers in choosing mobile carriers. The survey was conducted in February and March 2017. Quota are set based on age and gender. The margin of error is +/-2.43%.*

We would like to thank Deepa Mirchandani and Marissa Putri, our support service professionals, for their assistance in preparing this research report.

UBS Research THESIS MAP

MOST FAVORED: **Bharti Airtel**

LEAST FAVORED: **None**

PIVOTAL QUESTIONS

Q: How much market share will Jio achieve as it starts charging?

We estimate Jio's share of revenues at 5.7% in FY18E, gradually rising to 9.8% by FY20E. This is below our previous estimates as the the results of UBS Evidence Lab survey and our on-ground tariff checks suggest incumbents are narrowing Jio's value for money proposition by launching their own packages priced at only modest (15-20%) premium to Jio.

more →

Q: Will mobile revenue growth in India slow to low-single digits in FY17-18?

Yes. The launch of Jio's all free offers and continuation of aggressive packages will impact revenue in the short term, with QoQ revenue declines of 6-7% in Q4FY17E, following similar revenue declines in Q3FY17. Over the medium-term, however, we believe Jio's pricing is not dilutive to data ARPUs, which currently stand at Rs150-200. Voice substitution on the other hand will be triggered due to free unlimited calling. Overall, we estimate industry revenue to decline 4% in FY17 and grow 1.7% in FY18, below the 9-11% growth in FY14-15.

Jio:who survives and who thrives? →

Q: Will capex continue to increase due to data demand?

Yes. Based on experience from China and ASEAN, capex for Indian telcos will likely remain at around 20% for the next 2-3 years. On the positive side, the higher number of towers and infrastructure sharing should keep Indian capex below the levels in China and ASEAN at >25% of revenues. In addition, need for continued spending on capex and spectrum is triggering industry consolidation

Jio:who survives and who thrives? →

WHAT'S PRICED IN?

We believe near-term disruption from Jio is priced into Bharti and Idea shares, as their EV/EBITDA multiples shrunk 100-150bps between mid-2014 and Jan 2017. However, we also believe Idea shares are pricing in a large part of the synergy upside from the merger with Vodafone. On our new pro-forma EBITDA estimates, Idea's FY18E EV/EBITDA of 9.3x compares with Bharti's EV/EBITDA of 7.3x.

more →

UBS VIEW

We have a Buy rating on Bharti Airtel and we upgrade Idea Cellular from Sell to Neutral. While near-term disruption from Jio's launch is known, we believe Jio's arrival will: i) accelerate data usage, while driving rapid declines in data yields, ii) trigger voice substitution given the move towards unlimited plans; and iii) drive consolidation or the exit of smaller operators. We believe larger telcos, with sizeable spectrum holdings and ability to fund capex will come out winners. While Bharti has the spectrum footprint and ability to spend on capex, the combined Idea-Vodafone entity will also have a competitive spectrum footprint to support growing data usage.

EVIDENCE

The results of UBS Evidence Lab survey suggest customer satisfaction levels with incumbents are high. While Jio also has a comparable satisfaction level, it remains behind incumbents on network coverage and reliability, which are highlighted as most important factors in chosing a service provider. Jio's primary advantage lies in its value for money proposition, which is gradually narrowing as incumbents counter Jio's packages with similar offers of their own.

India Telecom: Industry pricing

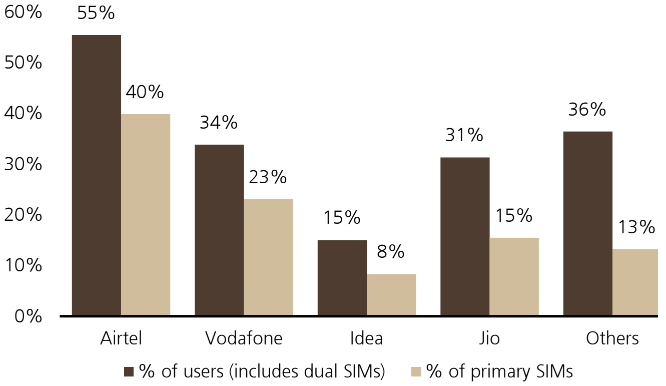
	Bundled data plans with unlimited voice (Mar2017)					Limited period offers with validity of 2-3 months (Apr 2017)				
Plans (Rs)	Validity	300MB	1GB	2GB	3-20GB	Validity	300MB	1GB	2GB	3-20GB
Airtel	28	149*	345	345	345	70	145*	245*/345	293	293
Vodafone	28	149*	346	346	346	56	149*	349	352	352
Idea	28	149*	348	348	348	70	148*	245^/347	296	296
Jio prime	28	149	149	149	303	84	149	149	149	309

Note: *Free on-net calls only; ^Unlimited local calls only; Most of Idea/Airtel/Voda plans are based on invitation only for Idea Source: Company data , UBS

OUR THESIS IN PICTURES

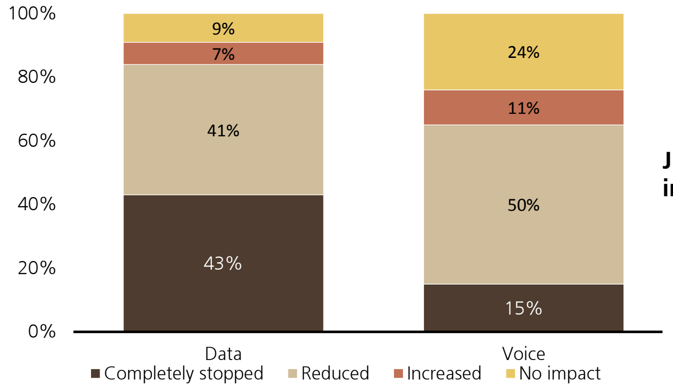
return ↑

Percentage of respondents operator wise



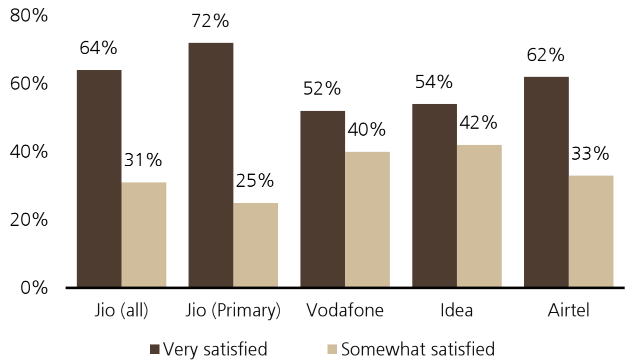
UBS evidence lab survey suggests nearly 1/3rd of respondents are Jio users, but nearly 50% of them use it as a secondary SIM)

Jio impact on incumbents' data usage



Jio's freebies have resulted in reduced data usage for incumbents; voice is relatively less effected

Satisfaction levels of respondents



Survey suggests satisfaction level of Jio comparable to Airtel

Key Cost Items as % of Rev	IDEA		AIRTEL INDIA	
	FY13	9MFY17	FY13	9MFY17
Network and IT	24.6%	29.1%	24.5%	22.2%
License fee and Spectrum usage	11.0%	11.5%	10.4%	10.8%
Access charge and roaming	17.8%	12.1%	14.2%	10.8%
SAC, advertisement and promotio	11.2%	9.7%	7.5%	6.4%
Personnel expense	5.0%	4.9%	3.7%	3.2%
G&A and others	3.5%	2.7%	7.1%	4.7%
Total Opex/Service Rev	73.0%	70.0%	67.5%	58.1%

Comparing operating costs between Idea and Bharti (India) suggests 10 ppt potential margin improvement likely as scale improves

Sources for exhibits above: Company data, UBS Research

OUR THESIS IN PICTURES

return ↑

Plans (Rs)	Validity	300MB	1GB	2GB	3-20GB
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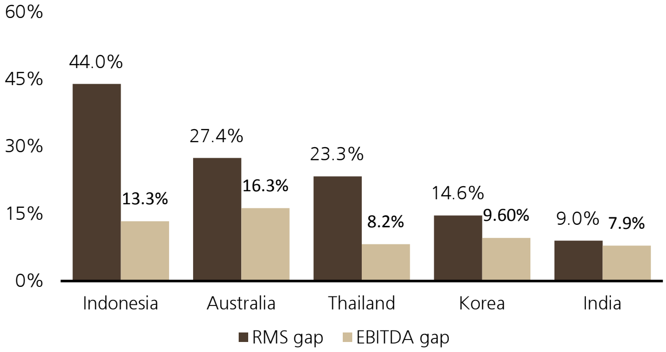
Note: *Free on-net calls only; ^Unlimited local calls only; Most of Idea/Airtel/Voda plans are based on invitation only for Idea Source: Company data , UBS estimates

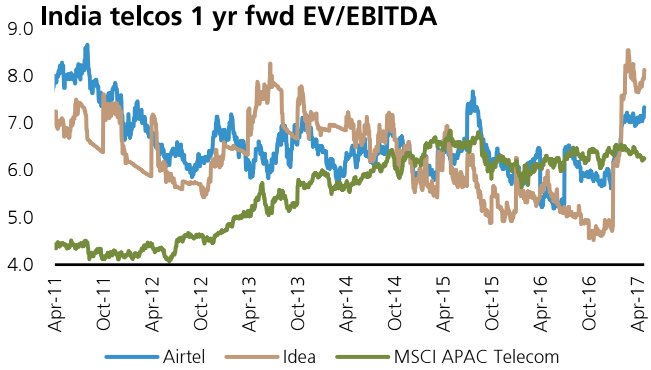
Recently launched bundled plans by incumbents suggests pricing gap with Jio has narrowed

RMS and EBITDA gap between no.1 and no.2 telco



Clear correlation between market share and margins for telcos, greater scale should provide operating leverage for Idea-Vodafone

India telcos 1 yr fwd EV/EBITDA



Airtel stock trading at discount to Idea

Sources for exhibits above: Company data, UBS Research

PIVOTAL QUESTIONS

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Q: How much market share will Jio achieve as it starts charging?

UBS VIEW

We estimate Jio's share of revenues at 5.7% in FY18E, gradually rising to 9.8% by FY20E. This is below our previous estimates as the combination of the results of UBS Evidence Lab survey and our on-ground tariff checks suggest incumbents are narrowing Jio's value for money proposition by launching their own packages priced almost at similar levels as Jio.

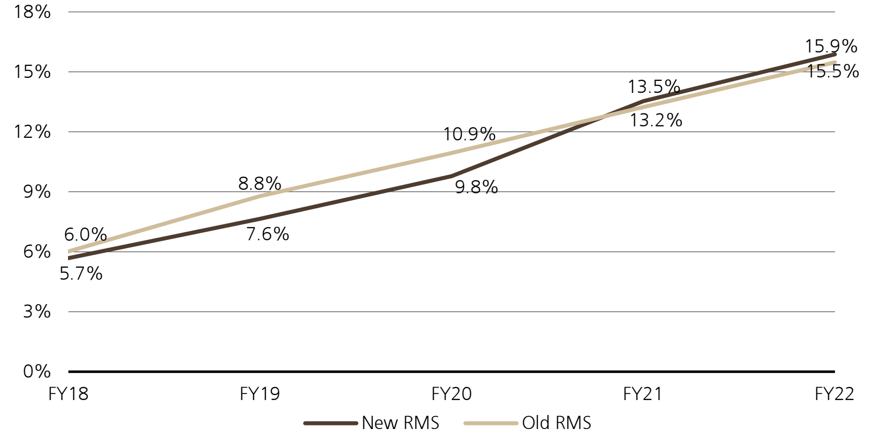
EVIDENCE

The results of UBS Evidence Lab survey suggest overall satisfaction levels with Jio are almost at par with incumbents despite a short history, supporting our forecast of 122.8mn subs as of FY18E and 145.3mn by FY20E. However, the survey results also suggest Jio ranking behind incumbents on network coverage and reliability which are considered to be the top attributes in the decision of opting for a service provider. Jio's key advantage lies in value for money, but incumbents continue to narrow the price gap of Jio to minimize its value for money advantage.

WHAT'S PRICED IN?

We believe the market expects incumbents' revenue trends to remain weak for the next several quarters as Jio is expected to remain aggressive. However, with incumbents responding aggressively, we expect subs loss and operating trends to stabilize in coming quarters, albeit at the expense of yields and ARPUs.

Figure 1: Jio RMS: Current versus previous estimates



Source: UBS estimates

Partnering with UBS Evidence Lab to address the debate on Jio conversion

We partnered with UBS Evidence Lab to address the key question surrounding Jio's ability to convert the ~100mn SIMs that it activated using the free offers between Sep 2016-March 2017. The survey was conducted using online methodology between 23 Feb to 7 Mar 2017, focusing on 8 cities, namely Mumbai, Delhi NCR, Bangalore, Kolkata, Ahmedabad, Lucknow, Hyderabad and Chennai. In total, 1,504 subscribers were interviewed, which included 73% in the age group of 18-44. Our focus was to maximise the % of respondents with smartphones (preferably 4G phones) and in urban areas, where Jio's initial impact has been felt.

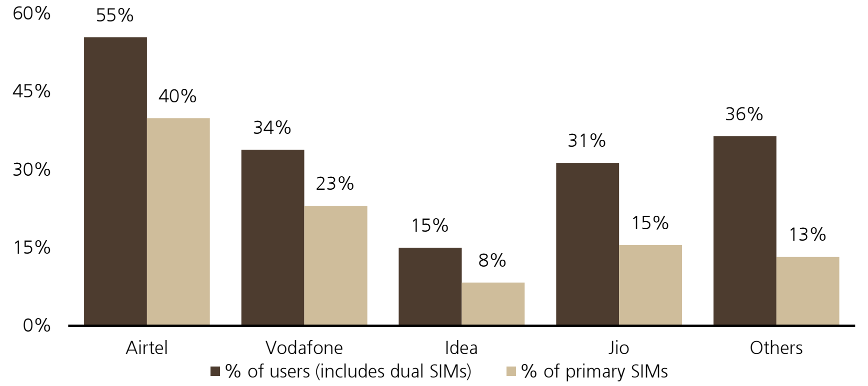
At a broad level, the results of the survey suggest that overall satisfaction levels with Jio's services are high and ~70% of subs will likely sign-up for the prime offer. That said, Jio did rank below incumbents on "network coverage", "network reliability", "voice quality" but ranked at par or slightly ahead on "data speeds" and came out higher on "value for money".

Below, we highlight the key conclusions from the UBS Evidence Lab survey:

Q1: How many people are using Jio? 15-30% of urban smartphone users

Of the 1,504 people interviewed, 31% are using Jio, implying a Jio penetration of around one third. All the respondents were smartphone users, so the survey is clearly more focused on mid/high income consumers in urban centers. More importantly, 15% of users use Jio "most often", implying roughly half of Jio users are likely using Jio as a secondary SIM while continuing to retain their usage with their original service provider. We note that as of Dec-2016, India has ~220mn data / smartphone users and Jio reported a SIM base of ~100mn as of 21 Feb 2017, further supporting that more than one third of active smartphone users have tried Jio and roughly half of these have used Jio most actively.

Figure 2: UBS Evidence Lab – percentage of respondents operator wise



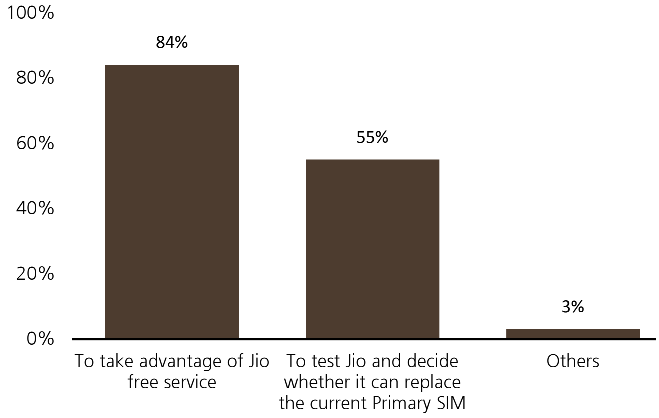
Source: UBS Evidence Lab

Q2: Understanding the impact of dual users on incumbents

By limiting the audience to those who are using Jio as an additional SIM (since we believe these customers are the ones all operators will try and win over), we aim to understand why and how are they using Jio as a secondary SIM. As the figures below show, 84% of those subscribers who are using Jio as secondary service are simply doing this do take advantage of the free offer. Slightly more than 50% are trying Jio to decide whether they should fully subscribe to Jio once it starts charging. 74% of those using Jio as secondary SIM are using dual-SIM phones, and only 24% are using a different phone for Jio. All these points highlight that large number of users are keeping the service of their original service providers and hence Jio remains vulnerable to losing a significant proportion of its subscribers if its value for money advantage erodes.

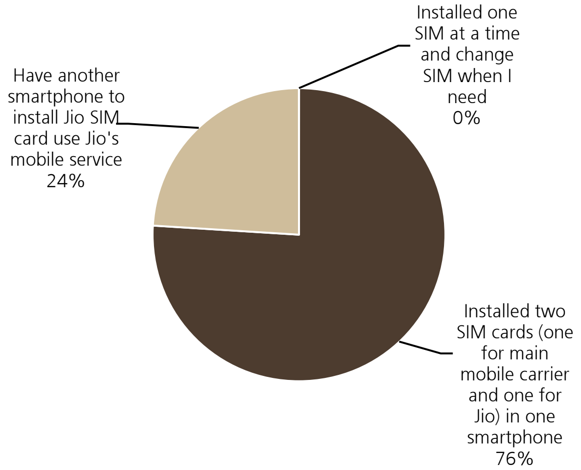
Secondly, we tried to study how subscribers changed their usage patterns on incumbents as they started using Jio as an additional SIM. Not surprisingly, the biggest impact was on data usage, with 33-61% of users completely stopping data usage on incumbent networks. The biggest hit is taken by Idea at 61% whereas Airtel at 33% comes out much better. Another 26-41% reduced their data usage on incumbent networks. On the other hand, the impact on voice usage has been more manageable, with only 15-33% of subscribers stopping their voice usage. Again, Airtel comes out ahead of peers with 15% of its subscribers stopping voice usage, whereas the ratio is as high as 33% for Idea.

Figure 3: UBS Evidence Lab – Reasons to use Jio as secondary SIM



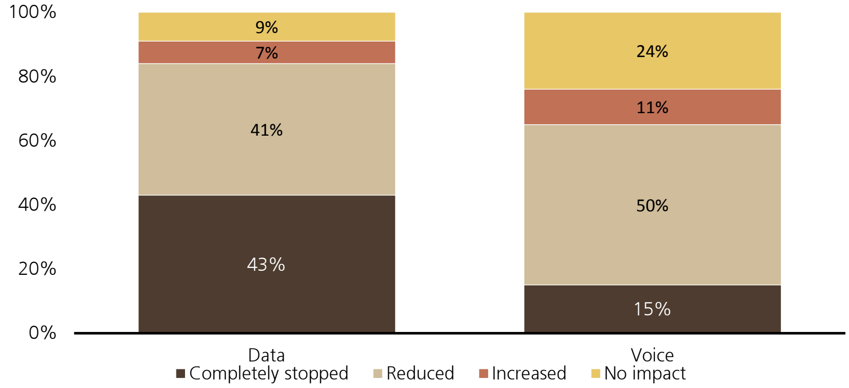
Source: UBS Evidence Lab

Figure 4: UBS Evidence Lab – Ways in which Jio as secondary SIM is used



Source: UBS Evidence Lab

Figure 5: UBS Evidence Lab – Impact of Jio as secondary SIM on primary SIM's data and voice usage



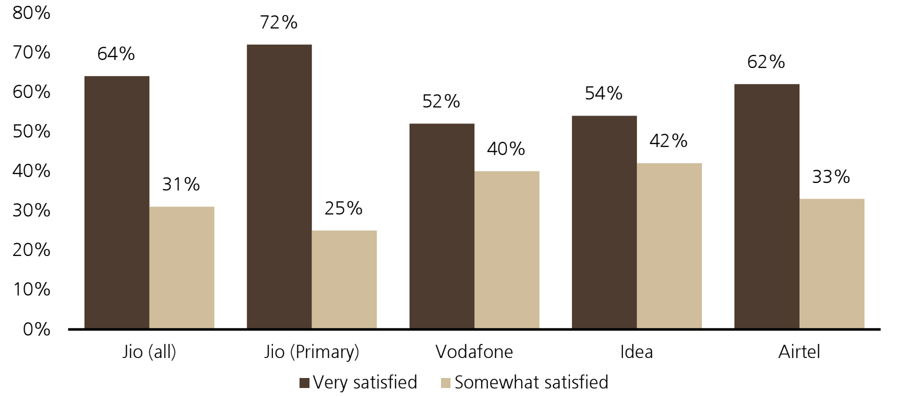
Source: UBS Evidence Lab

Q3: What are the satisfaction levels with Jio? Good data speed, weak coverage; but customer service is an issue

Despite a short history, customer satisfaction levels with Jio is at par with incumbents. Among the Jio users, roughly 64% are very satisfied and another 31% are "somewhat" satisfied with the service, implying an overall high satisfaction ratio. When we limit this analysis to the ~15% active Jio users, the satisfaction levels are even higher at 72%. Indeed, Jio's satisfaction levels are higher than other incumbents and almost comparable to Bharti.

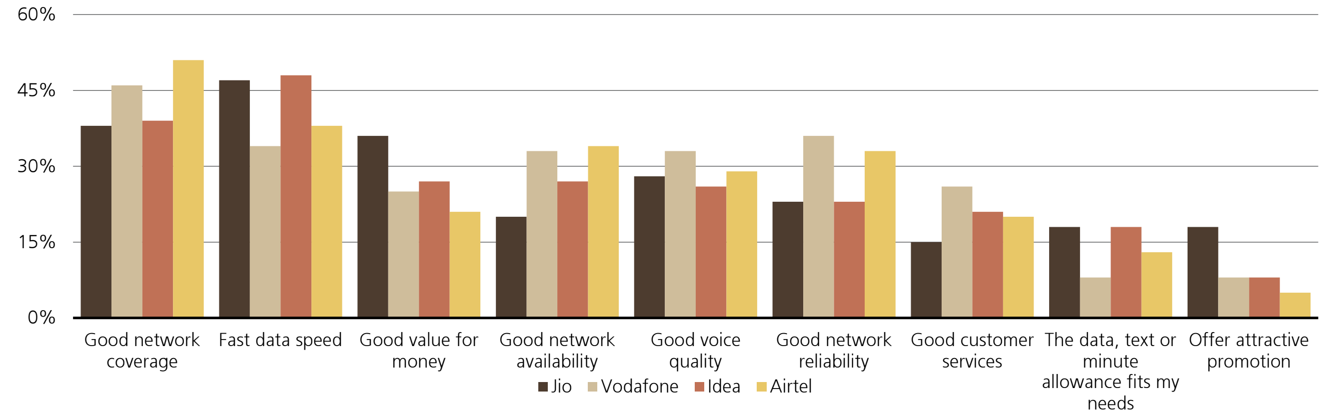
When we further analyse the different attributes, Jio comes out ahead of peers on data speeds, value for money and attractive promotional packages, but materially below peers (particularly Airtel) on network coverage, reliability and in-building network reach. On the other hand (and contrary to what is widely reported), Jio's voice quality is not materially below incumbents. Finally, and to our surprise, Jio is behind incumbents on attributes such as customer service, technical support, which could be a medium-term challenge: as a new entrant, we believe it is critical for Jio to provide a good experience to customers who try out its services.

Figure 6: UBS Evidence Lab - Satisfaction levels of respondents across operators



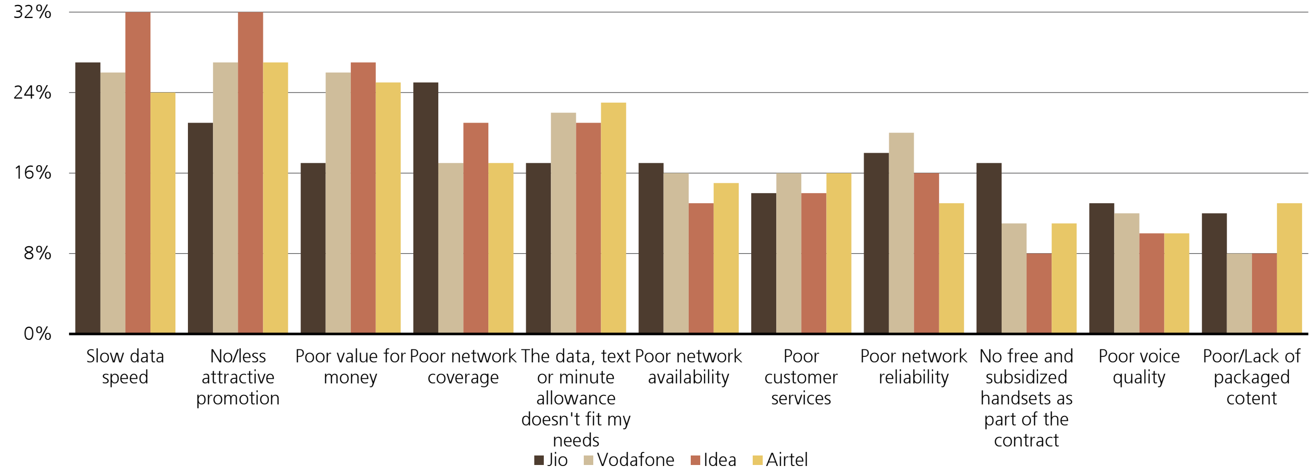
Source: UBS Evidence Lab

Figure 7: UBS Evidence Lab – Reasons to stay with current operator



Source: UBS Evidence Lab

Figure 8: UBS Evidence Lab – Reasons to leave current operator

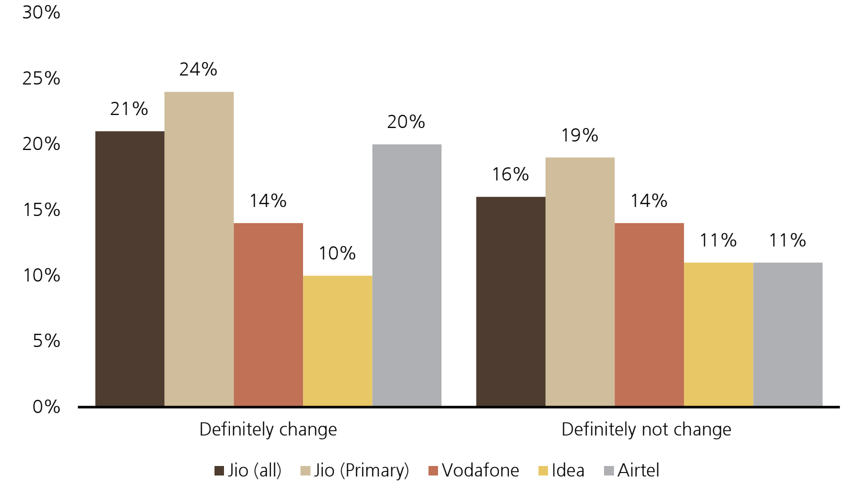


Source: UBS Evidence Lab

Q4: What % of subs are at risk of leaving Jio?

All factors considered, Jio's retention rate is only marginally behind incumbents, again a positive surprise given its relatively short history. Among the current users, % who will definitely change their mobile carriers are the highest for Jio, although the gap with the incumbents is not massive. Interestingly, on the opposite end of the spectrum, Jio also has the highest % of subs who will definitely not change at 19% compared to 11-14% for the other incumbents, further testifying to its attractive value for money proposition, we believe.

Figure 9: UBS Evidence Lab – % of respondents likely to change operator

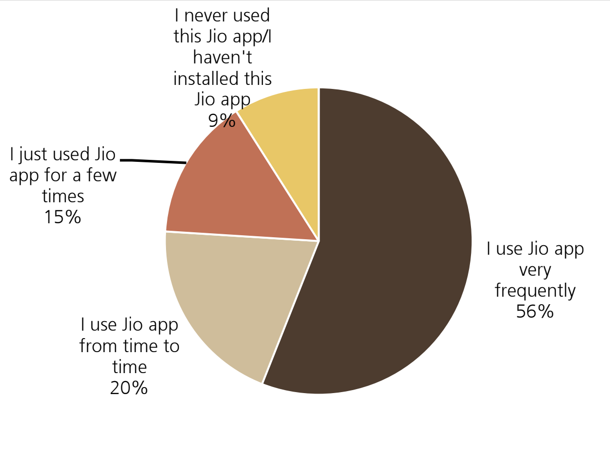


Source: UBS Evidence Lab

Q5: Can Jio apps differentiate it vs incumbents?

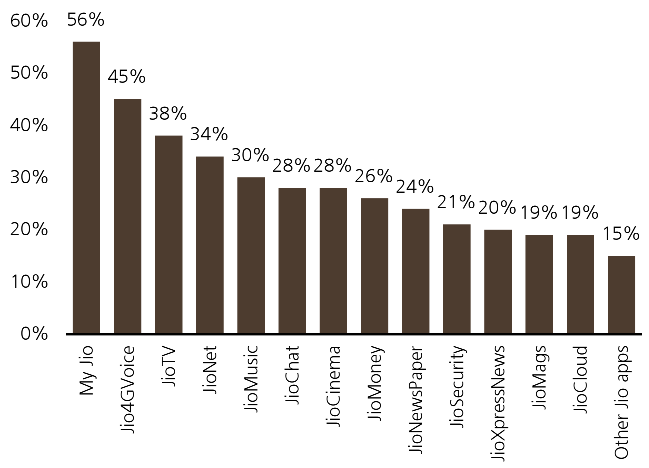
While the immediate focus remains on network and price as a customer acquisition / retention tool, all operators are now trying to launch more and more apps around TV, music, payments etc to increase customer stickiness. Jio in particular has launched a suite of apps which are currently being offered for free. We tried to study the attractiveness and popularity of Jio's apps. Roughly 56-61% of Jio users are active users of its apps. In particular, MyJio and Jio4GVoice apps are the most commonly used apps, whereas apps related to news, magazines and security are among the least used. JioTV and JioMusic are used by 38% and 30% of users on a very active basis.

Figure 10: UBS Evidence Lab – Frequency of usage of Jio apps



Source: UBS Evidence Lab

Figure 11: UBS Evidence Lab - Jio's apps ranked in order of popularity amongst respondents



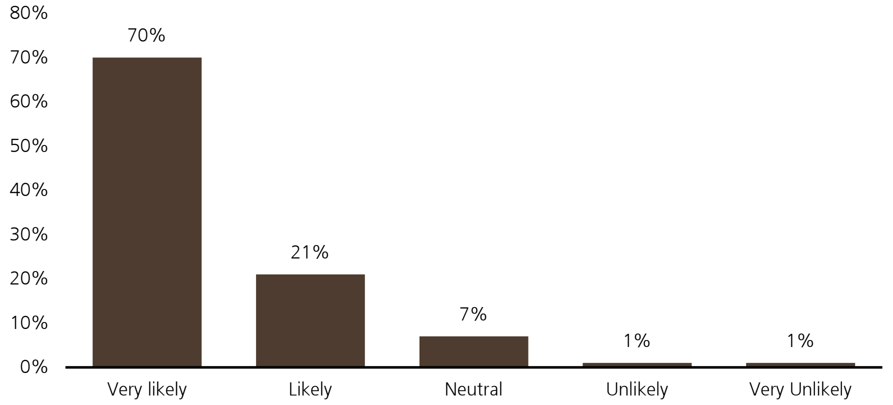
Source: UBS Evidence Lab

Q6: How much interest in Rs303 prime offer? And other pricing packages

Jio's prime offer priced at Rs303 was viewed as highly attractive by Jio users as well as users of other service providers. As many as 70% of Jio users indicated they were very likely to join the prime offer, while an additional 21% indicated that they were likely to join the offer. Indeed, roughly 50% of incumbents' subscribers indicated an interest in the Jio offer as highly likely (it is important to highlight that all incumbents have started offering Rs330-350 plans offering almost the same allowance as Jio to select users as a measure of customer retention).

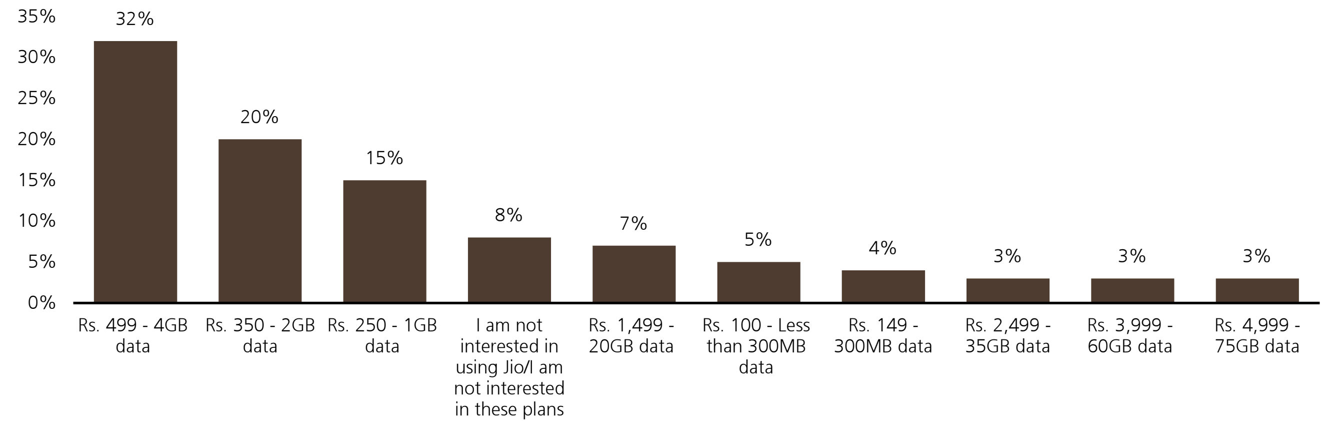
We note that the Rs303 prime offer has been highlighted as a promotional offer for 12 months; we therefore aimed to check customers' willingness to pay on an ongoing basis. We checked customer interest on a range of price points / data usage levels starting from Rs100 / <300MB to Rs5000/75GB. The most commonly attractive price plans Rs499/4GB, Rs350/2GB and Rs250/1GB in that order. We believe this shows the sweet spot of data ARPU is around Rs200-250 and sweetspot of data usage is around 2-5GB per month.

Figure 12: : UBS Evidence Lab - % of Jio respondents interested in its Rs303 plan



Source: UBS Evidence Lab

Figure 13: UBS Evidence Lab – In absence of Rs303 plan, the most attractive plan is Rs499 with 4GB data and unlimited voice



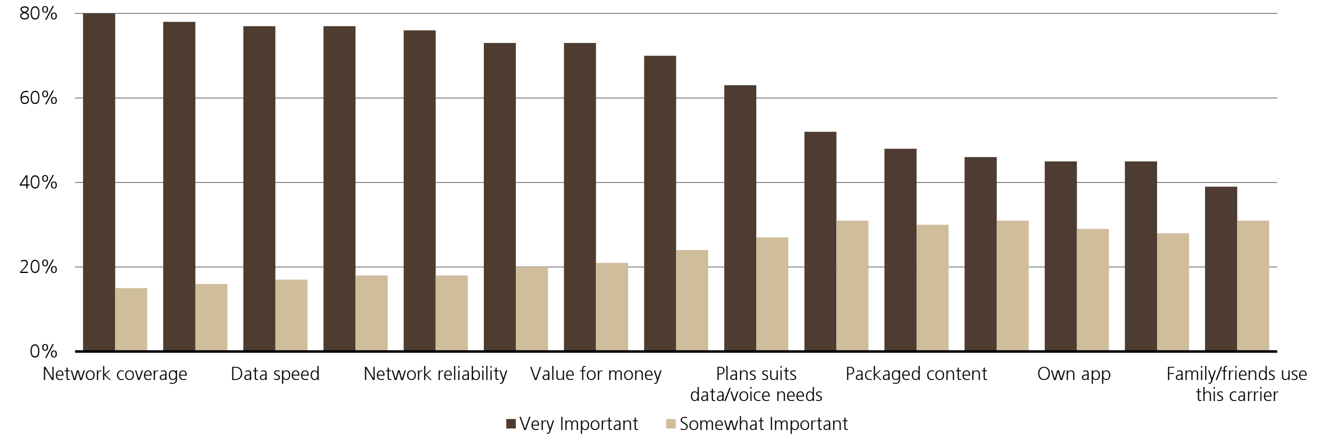
Source: UBS Evidence Lab, Note- All plans give unlimited voice

Q7: What is a customer looking for? Network coverage appears to be the most important consideration

Moving beyond Jio and looking at the market broadly, we tried to understand what factors are most important in the customers' decision to select a particular service provider. Based on the responses from the survey, it appears that good network coverage, availability and reliability are the most important factors, followed by data speeds and voice quality. In short, the biggest concern for a subscriber is the inability to make a call or access Internet when he or she needs to. Price / promotion comes quite a bit behind with only 52% of subscribers highlighting it as "very important". Other factors such as bundling, family plans etc are much lower in the pecking order.

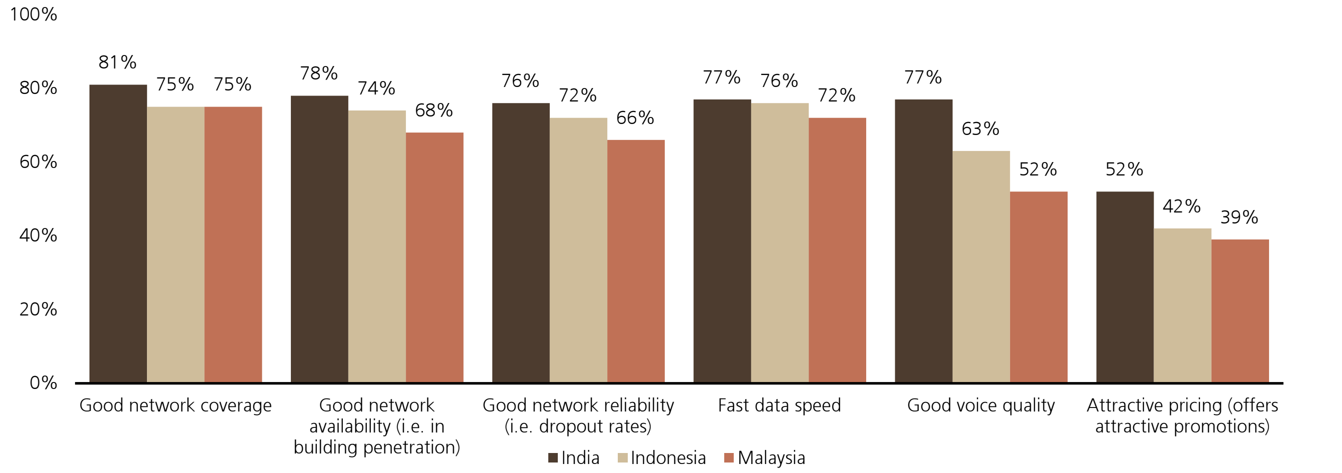
More importantly, comparing India, Indonesia and Malaysia, we note that network reliability and coverage is considered relatively more important by Indian consumers than Indonesian and Malaysian consumers in their choice of service providers.

Figure 14: UBS Evidence Lab – Network coverage most important crietria for respondents



Source: UBS Evidence Lab

Figure 15: UBS Evidence Lab – Importance of network and price related criteria amongst repondents - regional comparison

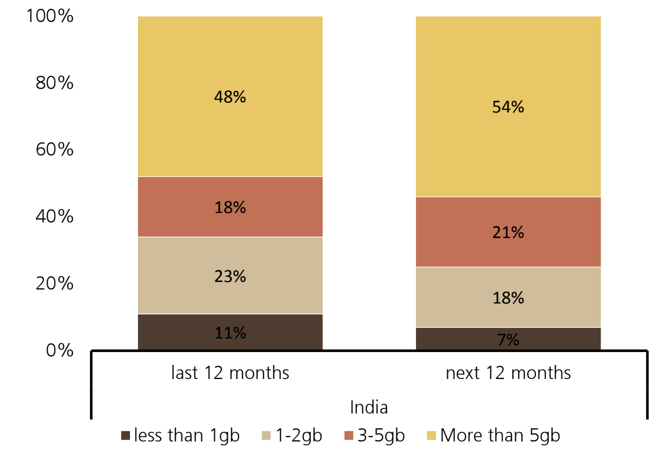


Source: UBS Evidence Lab

Q8: What are the trends on data usage?

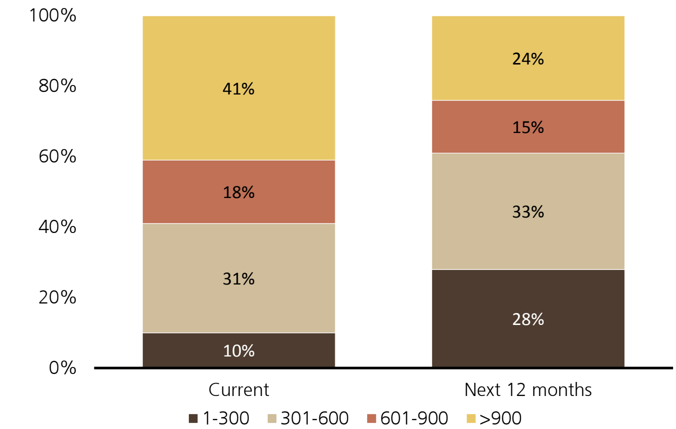
We also attempted to understand data usage patterns of Indian consumers. Not surprisingly, data usage has grown meaningfully in the past 12 months with only 11% of consumers using less than 1GB in the past 12 months. More importantly, this proportion will continue to shrink with only 7% of respondents expecting their data usage to be less than 1GB in the next 12 months. That being said, consumers are expecting to spend less on data in the next 12 months vs the past 12 months. This is not entirely surprisingly given the aggressive promotional activities in the market. While 90% of consumers spent more than Rs300 on data per month in the past 12 months, we expect this proportion to shrink to 72% in the next 12 months.

Figure 16: UBS Evidence Lab - Data consumption to increase in next twelve months



Source: UBS Evidence Lab

Figure 17: UBS Evidence Lab - Monthly spending on mobile to go down in next twelve months



Source: UBS Evidence Lab

Q9: Overall satisfaction / dissatisfaction levels with service providers

Despite the ongoing intense competitive phase, the overall satisfaction levels with telecom service providers are quite high in India. Most operators have 90-95% of subscribers either very satisfied or somewhat satisfied. As discussed earlier, Jio gets the highest marks, likely supported by its value for money propostion. Airtel at 62% very satisfied is the best among the incumbents, followed by Idea and Vodafone at 54% and 52% respectively. If we add very satisfied and somewhat satisfied, all three incumbents have between 93-96% satisfaction ratio.

Understanding recent moves in tariffs: incumbents not leaving a "big value" gap for Jio

Since the start of March when Jio announced the prime offer, industry tariffs have gone through several rounds of changes. We aim to summarize the evolution of industry pricing in figures 18-21. Our key conclusions:

1) While most tariff changes prior to Jio's arrival were focused on high-end (data usage of >5GB, monthly tariff of >Rs600), incumbents have now started lowering entry prices for data from Rs200-250 to Rs150-170;

2) All operators have launched "bundled packages" offering unlimited voice and SMS, which in our view, will reduce the attractiveness of data only offerings. Indeed, all of Jio's offerings have unlimited voice and SMS embedded;

3) While most incumbents kept a premium to Jio's pricing until Feb, we see a gradual narrowing of price premium since the introduction of Jio's unlimited packages under the prime offer. More importantly, incumbents have kept these counter offers selective, focusing on those users who have 4G handsets, high ARPU and who are considered "high-risk" to churn;

4) This trend has followed after the TRAI intervention on Jio's summer surprise offer, whereby Jio essentially extended the free prime offer by another three months. Jio responded to TRAI's intervention by removing the summer surprise offer but by extending the validity of its Rs303/unlimited prime offer from 28 days to 84 days, essentially reducing the price by two thirds. But

incumbents followed immediately with their own similarly priced plans with validity of 56-70 days.

We believe the impact of these price changes is that Jio's price discount to incumbents has narrowed and could put its "value for money" proposition at risk. In the mean time, incumbents will likely see slower loss of subs to Jio, but take a bigger ARPU hit, particularly for data (but also for voice). As the results of UBS Evidence Lab survey suggests, Jio still lags behind incumbents on network coverage, and reliability, which have been highlighted by subscribers as the "most important" attribute that drives their choice of a service provider.

Figure 18: India Telecom: Industry pricing evolution

Operator (Rs)	1GB	2GB	3GB	5GB	10GB
Data only plans					
Sep. 2012	249	448	1,075	1,175	1,500
Jul. 2014	250	449	685	1283	1,417
Apr. 2015	249	449	708	986	1,500
Apr. 2016	255	453	653	886	1,420
Sep. 2016	254	421	523	723	998
Dec. 2016	268	335	437	616	998
Feb. 2017	165	267	293	450	617
Apr. 2017	156	264	290	447	483
Bundled data plans with unlimited voice					
Feb. 2017	387	499	499	812	1,274
Apr. 2017	249	273	313	313	313

Source: Company data , UBS estimates

Figure 19: Bundled data plans with unlimited voice (Jan-Feb 2017): mass market

Plans (Rs)	300MB	1GB	2GB	3GB	5GB	10GB	15GB	20GB
Airtel	149*	349	499	499	549	1,199	1,599	1,999
Vodafone	149*	349	499	499	699	1,299	1,699	1,699
Idea	149*	350	499	499	999	1,599	-	-
Jio plans	-	499	499	499	999	999	1499	1499

Note: *Free on-net calls only; Source: Company data , UBS estimates

Figure 20: Bundled data plans with unlimited voice (March-2017)

Plans (Rs)	300MB	1GB	2GB	3GB	5GB	10GB	15GB	20GB
Airtel	149*	345	345	345	345	345	345	345
Vodafone	149*	346	346	346	346	346	346	346
Idea	149*	348	348	348	348	348	348	-
Jio prime	149	149	149	303	303	303	303	303

Note: *Free on-net calls only; Plans for Airtel/Idea/Voda are available only on invitation Source: Company data , UBS estimates

Figure 21: Limited period offers with validity of 2-3 months (Apr 2017)

Plans (Rs)	Validity	300MB	1GB	2GB	3GB	5GB	10GB	15GB	20GB
Airtel	70	145*	245*/345	293	293	293	293	293	293
Vodafone	56	149*	349	352	352	352	352	352	352
Idea	70	148*	245^/347	296	296	296	296	296	296
Jio prime	84	149*	149	149	309	309	309	309	309

Note: *Free on-net calls only; ^Unlimited local calls only; Plans for Airtel/Idea/Voda are available only on invitation basis; Source: Company data , UBS estimates

Quick summary of the evolution of pricing since Jio launch

Jio:

- **Dec 2015** – Jio trial launch for Reliance employees only
- **June 2016 –** Jio service available on invite only basis bundled with LYF devices
- **1 Sep 2016 –** Jio announces 'Welcome offer' providing free unlimited voice and data upto Dec 2016. Bundled plans starting from Rs149 with unlimited voice announced which will be applicable from Jan 2017. Services to be launched from 5 Sep 2016.
- **1 Dec 2016** – Jio announces 50mn users. Happy new year offer – free services extended till March end
- **21 Feb 2017 -** Jio announces 100mn users. Announces new plans for prime and non prime users. Rs303 plan to provide 1Gb/day to prime users
- **31 Mar 2017 –** Jio announces Summer Surprise offer - 3 months of complementary services with first recharge
- **6 April 2017** – Jio to withdraw Summer Surpise offer based on TRAI order
- **11 April 2017 –** Jio announces Dhan Dhana Dhan offer – Rs309 – 1GB/Day for 84 days

Reaction from incumbents:

- **June-Sep 2016 –** Incumbents start slashing the data prices especially for higher GB plans
- **Sep 2016 – Feb 2017 –** Incumbents continue to slash data prices. Launch bundled plans with unlimited voice starting Rs149/Rs349 for 300MB/1GB data
- **March 2017 –** Incumbents launch 1Gb/day plan for select 4G customers in response to Jio's
- **April 2017 –** Incumbents launch higher validity plans in response to Jio's Dhan Dhana offer

PIVOTAL QUESTIONS

return ↑

Q: Could Idea achieve management target of Rs140bn synergies?

UBS VIEW

Aggressive, but achievevable. Idea announced cost and capex synergies of Rs84bn and Rs56bn, within 3-4 years of the merger. After analysing the cost structure of Idea, comparing Idea's margins with Bharti, comparing margin and RMS differential in other markets such as Indonesia and Thailand, and based on European M&A examples; we believe Idea's synergy target, while aggressive is achievable. In our pro-forma estimates, we assume steady state opex savings of Rs76bn, slightly below management target, with combined entity's EBITDA margins reaching 39% by FY22E vs 40% for Bharti's mobile India business.

EVIDENCE

Our analysis of bottom-up cost structure highlights network opex comprises by far the largest cost component and with ~20% sites possibly up for removal, the savings in terms of tower lease and utility costs are expected to be significant. In markets such as Thailand, Indonesia, we see a clear 5-10ppt margin advantage for telcos with 5-10% market share advantage, showing the operating leverage in the business. Finally, European M&A examples have also shown 10-15% of total costs can be reduced.

WHAT'S PRICED IN?

We believe the market is pricing in most of the synergy upside, as reflected in Idea's FY18E EV/EBITDA of 10.3x on a standalone and 9.3x on a pro-forma basis (pre-synergies). Using FY20E EBITDA estimates, Idea's pro-forma EV/EBITDA comes to 6.9x including synergies. This compares to Bharti's FY20E EV/EBITDA of 5.7x.

On March 20, 2017, Idea and Vodafone announced that they will merge their Indian businesses, which will result in the formation of largest mobile operator in India with an estimated revenue market share (RMS) of 41% (using Dec-2016 data). In addition, the companies indicated that spectrum holdings of the combined entities will be strengthened materially and allow for a material increase in the network data capacity at minimal incremental capex. Finally, the companies indicated potential synergies of Rs84bn annually in opex and Rs56bn in capex from the merger of the two organizations as several areas of duplication particularly in network, but also sales and distribution and G&A will be eliminated.

Our bottom-up analysis of the cost structure of Indian telcos, comparison of margins between Idea and Airtel, evaluation of margin differentiatial in other markets between operators with different market shares and other global M&A examples leads us to conclude that roughly 15-20% opex and capex savings are indeed possible once the merger is finalized.

Using the above conclusions, we publish our pro-forma estimates for Idea assuming Vodafone India financials are consolidated in the combined entity. We run scenarios using a range of opex and capex synergies. While our base-case (pre-merger DCF value) remains broadly unchanged at Rs53 (vs Rs55 before), our pro-forma valuation increases to Rs95 per share (after incorporating the synergies). We derive our new price target of Rs95, using our pro-forma valuation as our base case (given the combined entity will likely be able to meet RMS / spectrum caps subject to some spectrum sale), and hence we see high probability of the deal getting approvals.

Figure 22: Idea: DCF values in standalone and pro-forma scenarios (pre and post synergy)

Rsm	Idea	Merger scenario	
		Without synergy	With synergy
PV of Year 1-10	411,329	850,252	989,876
Terminal value	295,601	672,054	867,951
Enterprise value	706,930	1,522,306	1,857,827
Net debt (including spectrum liabilities)	612,358	1,283,454	1,249,716
Stake in affiliates	94,875	94,875	94,875
Equity value	189,447	333,727	702,986
Equity val per share	53	46	97
Price target			95

Source: UBS estimates

Understanding the source of synergies: network duplication is key

We look at the various opex categories for Idea in detail to understand the source of synergies. Not surprisingly, the biggest synergies will be derived from network opex as both companies have indicated that as many as 20% sites are duplicated and can be eliminated. Below we look at the various cost categories:

1) **Network opex**: We estimate as much as 15-20% of the combined companies' network opex can be reduced as network integration is completed (likely 2-3 years after the closing of the merger). Currently, Idea has ~134k sites and we estimate Vodafone has ~140k sites, and as part of the merger announcement, management had indicated ~55-60k sites could possibly be eliminated. We note that Bharti currently has 160k sites, implying mobile revenue per site of Rs3.5m for Bharti vs Rs2.6-2.7m for Idea and Rs2.7-3m for Vodafone. Assuming 20% of sites are eliminated, we believe network opex can be reduced by 15-20%, resulting in the combined entity generating revenue per site of Rs3.4-3.6m, almost comparable to Bharti. On the other hand, there will be one off costs associated with network integration. Management had indicated Rs133bn of one off costs associated with integration to be incurred over the period FY18-20E, bulk of which will be related to network, we believe. This will also include potential penalties payable to towercos for ealy termination of contracts.

2) **G&A and fixed costs**: G&A, employee related and other fixed costs for Idea have declined by ~100bp since FY13, while for Bharti these costs have come down ~300bp, clearly showing operating leverage in the business. We believe functions such as finance, legal, marketing can be centralized and sizeable duplication can be avoided. We estimate 15% of combined entities' G&A can be reduced due to above removal of duplication.

3) **Sales, marketing and customer acquisition**: While savings in sales and marketing will be dependent on how the brand integration is managed, we

believe costs associated with distribution of SIM cards etc can be reduced. During the merger announcement, management mentioned that a final decision on brands has not been taken and while both brands will likely be kept in the short term to minimize customer confusion, a centralized branding strategy will eventually be followed to minimize cost duplication. We have assumed 15% of combined entities marketing and subscriber acquisition costs can be reduced, although we note that items such as dealer commissions etc will likely remain broadly unchanged.

4) **Capex**: The combined entities' spectrum holdings is almost 2x compared to Idea alone, in the 1800MHz band, which is the core 4G spectrum. During the merger announcement, management mentioned that spectrum harmonization and widening of spectrum bands (also removing guard bands in certain cases) will help the combined entity expand data network capacity many-fold without much incremental capex. Given the clear inverse correlation between spectrum and capex, we estimate Rs53bn of cumulative capex savings between FY19-22E, although some of these will be offset by one off costs associated with optimization of network. Over the medium-term, we now estimate the combined company's capex to sales at 12-13%, which is 150-200bps lower than our estimates for stand-alone.

Figure 23: Idea Vodafone merger - synergy details

Rsm	FY20E	FY21E	FY22E	Comments
Network & IT	9,572	28,717	47,861	Synergy impact peaking in FY22E to 20% of FY18E of network & IT costs,as 20% of sites eliminated for the combined entity
G&A	1,557	4,670	7,783	Synergy impact peaking in FY22E to 15% of FY18E of G&A costs, driven mainly by redundancies in functions such as finance, legal & mktg
Personnel	1,100	3,300	5,501	Synergy impact peaking in FY22E to 15% of FY18E of personnel costs, driven by redundancies in headcount in functions such as finance, legal & mktg
Others	3,062	9,187	15,312	Synergy impact peaking in FY22E to 20% of FY18E of access & roaming costs, as on-net traffic proportion increases and ICR arrangements reduce
Capex	5,864	17,593	29,322	Synergy impact peaking in FY22E to 20% of FY18E capex due to optimum utilization of spectrum, medium-term capex to sales 150-200bps lower vs standalone

Source: Company data, UBS estimates

Figure 24: Comparing Idea's operating costs with Bharti: 10ppt potential margin improvement likely

Key Cost Items	IDEA		AIRTEL INDIA	
	FY13	9MFY17	FY13	9MFY17
Network and IT	24.6%	29.1%	24.5%	22.2%
License fee and Spectrum usage	11.0%	11.5%	10.4%	10.8%
Access charge and roaming	17.8%	12.1%	14.2%	10.8%
SAC, advertisement and promotion	11.2%	9.7%	7.5%	6.4%
Personnel expense	5.0%	4.9%	3.7%	3.2%
G&A and others	3.5%	2.7%	7.1%	4.7%
Total Opex/Service Rev	**73.0%**	**70.0%**	**67.5%**	**58.1%**

Source: Company data, UBS estimates

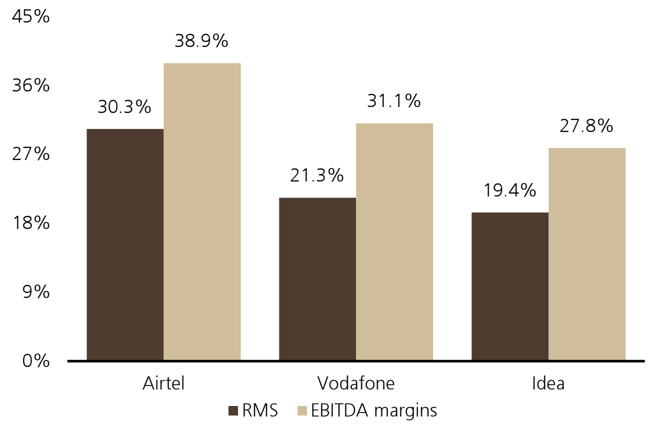
Studies from other markets suggest strong co-relation between margins and market share

Further supporting the above point, we compare other markets in Asia to understand the difference between margins and market share. We take examples from Indonesia, Thailand, Korea and Australia where there are meaningful gaps in market shares among the various operators. On the other hand, we exclude Malaysia, Philippines and Taiwan, where the market shares are more even among the various mobile operators. That said, we note that market shares in Philippines have changed materially in the past five years with Globe gaining almost 10ppt market share from PLDT. We therefore look at the evolution of EBITDA margins and market shares in Philippines, which shows PLDT's wireless margins have come closer to Globe's vs a 5-10ppt premium as it has ceded market share.

In Indonesia, Telkomsel's margins are 20ppt and 13ppt higher than XL and Indosat respectively for roughly 35-40ppt higher market share. In Thailand, AIS's margins are 8ppt higher than DTAC and 25ppt higher than True for 20-25ppt higher market share. We note that all operators have different regulatory costs and AIS has payments to TOT for towers and spectrum. We therefore also compare Thai margins for the differences in regulatory, spectrum and tower related costs. Similarly in Australia, Telstra have 16-22ppt higher margins for 20-30ppt higher market shares, and in Korea, SKT has 7-10ppt higher margins for 25-30ppt higher market shares.

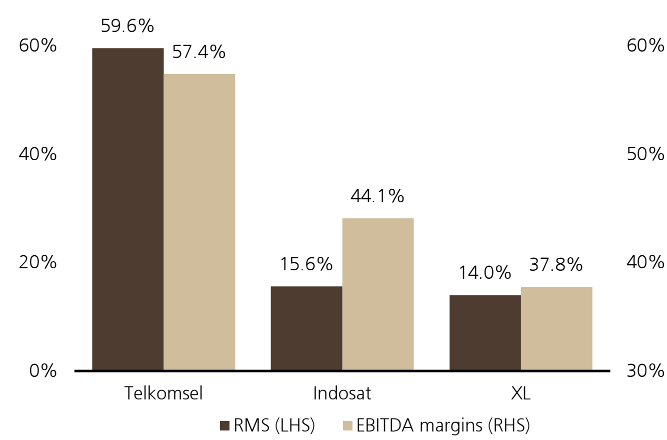
In the Philippines, as figure 30 shows, PLDT's margins have now become equal to Globe, as its market share has come down to Globe levels. This compares with five years ago, when PLDT's mobile margins were 12-13ppt higher, for 15-20ppt higher revenue market share. In short, there is a strong evidence of operating leverage, which implies margins of the combined Idea-Vodafone entity can improve with greater revenue and operating scale.

Figure 25: India telcos RMS vs EBITDA (FY17E)



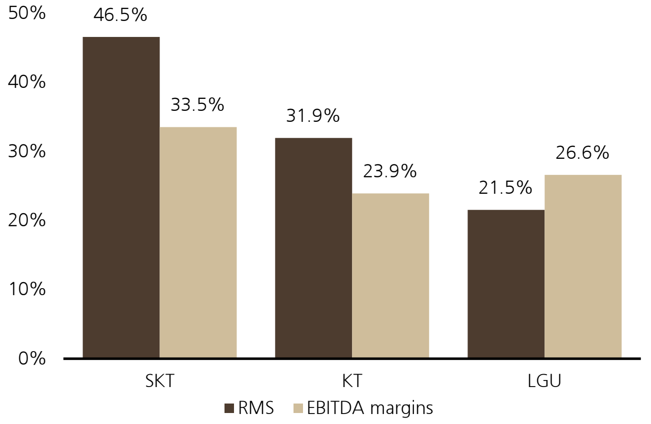
Source: Company data, UBS estimates

Figure 26: Indonesia telcos RMS vs EBITDA (2016)



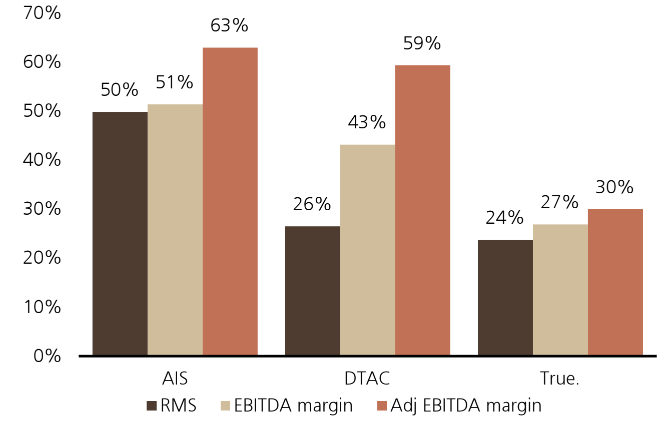
Company data

Figure 27: Korea telcos RMS vs EBITDA margins (2016)



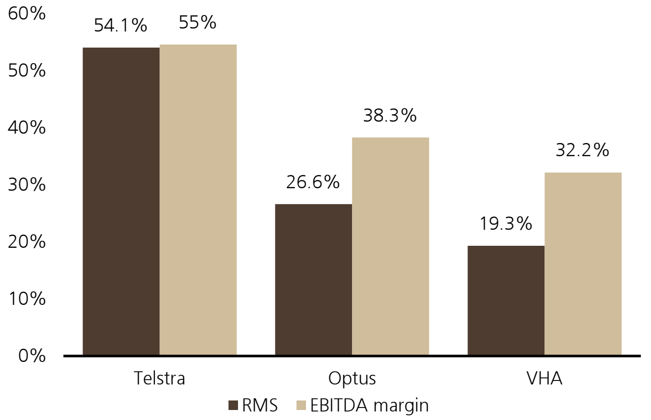
Source: Company data

Figure 28: Thai telcos RMS vs EBITDA (2016)



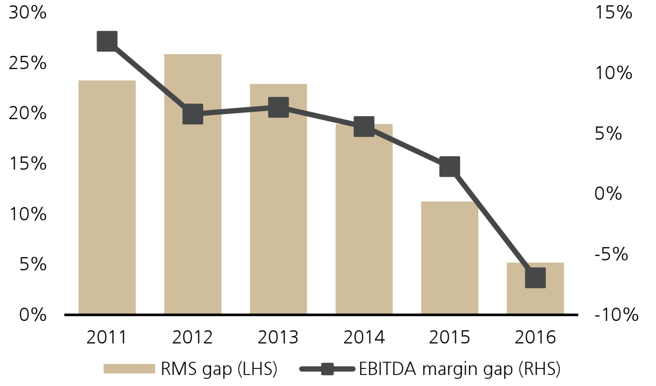
Note: Adjusted EBITDA margins for tower rental, spectrum and regularory costs; Source: Company data

Figure 29: Australia telcos RMS vs EBITDA margins (2016)



Note: Using Mobile EBITDA margins for Telstra; Source: Company data

Figure 30: Phil:RMS vs EBITDA gap between PLDT & Globe



Note: For PLDT, we have used mobile EBITDA; Source: Company data

Looking at European M&A examples: 10-15% of opex can be reduced

Europe has seen a number of mobile-to-mobile deals in recent years. The table below outlines the deals that have been completed, but excludes more recent deals that were blocked (Hutchison/O2 in the UK and Telia/Telenor in Demark). For the deals where there was a detailed breakdown of the synergies, absolute cost synergies were €650-800m pa with an NPV of €4-5bn with restructuring charges being 1-1.5x the longer-term run-rate synergies. However, it is worth noting that markets like UK, Italy and Germany are notably smaller in size compared to India with the populations in each of these European markets being 60-80m. Based on European benchmarks, cost synergies have typically totalled 8-16% of the pro-forma cash cost base (opex and capex combined). Opex savings as a % of mobile service revenues are 8-11% implying a notable boost to EBITDA margins, all else being equal.

Figure 31: European: mobile to mobile deals

Announcement	Country	Deal
2010	UK	T-Mobile/Orange
2012	Austria	Hutchison/Orange
2013	Ireland	Hutchison/O2
2013	Germany	Telefonica Deutschland (O2)/E-Plus
2015	Italy	Hutchison/Wind

Source: Company data, UBS estimates

In terms of the breakdown of the synergies, the split between opex/capex has typically been 70%/30% with savings coming from the following areas:

- Distribution/customer care/marketing: rationalisation of shops, consolidation of call centres and CRM systems as well savings on marketing
- Network: Consolidation of cell sites (20-40% reduction) and footprint optimisation leading to lower site rental costs, lower maintenance and power costs.
- SG&A: removal of duplicate corporate overhead
- Capex: Decommissioning duplicate infrastructure. Savings from backbone, backhaul and core network consolidation leading to lower maintenance capex.

Figure 32: Typical break-down of synergies from mobile to mobile deals

Synergy on Key Costs	(%)
- Distribution/Customer Service	25
- Network	30
- S&GA	15
Opex savings	70
Capex savings	30
Total run-rate synergies	100

Source: Company data, UBS estimates

We look at major M&A in Europe (VIP and Hutch in 2016 in Italy, T-Mobile and Orange in 2010 in UK, Telefonica Deutschland & E-plus in 2014 in Germany, in order to study opex and capex synergies achieved after these transactions. In July 2013, Telefonica Deutschland (TD) announced annual potential peak synergies from its acquisition of E-plus of EUR800m translating to NPV of EUR5-5.5bn (net of integration costs), around 70% of which is from opex and remaining from capex. The opex sysnergies amounted to 12% and 9% of TD's 2014-15 opex. The capex synergies amounted to 28% and 23% of TD's 2014-15 capex. TD completed the acquisition in October 2014. In its 2015 annual report (one year following the completition of acquisition), management stated that they realized 35% of synergies in first full year (2015) and were targeting to realize over 50%in 2016. The company upgraded its synergy guidance to EUR900m in 2016 and now expects to realize 75% of synergy targets in 2017 and full impact by 2019. TD's EBITDA margin progression from 25.2% in 2013 to 27.6% in 2016 also suggests successful realization of its synergy targets announced at time of acquisition.

In case of Vimplecom (WIND) and Hutchison (50:50 JV completed in November 2016), VIP guided for annual synergy savings of EUR700m (to peak by 2019) which translates to NPV of EUR5bn (net of integration costs). The run rate for opex synergy amounts to around EUR500m, which is (VIP's share – 50%) around 9% of WIND's 2015 opex. Annual capex synergies of EUR200m translates to 13% of WIND's 2015 capex. Since the JV has not completed a year yet, we don't have actual realization numbers but VIP provides pro forma EBITDA margin including these opex synergies of 39% vs. 31% pre-synergies for the JV.

T-Mobile (Deutsche Telekom) and Orange merger was announced in 2009. NPV of synergies was guided at EUR3.5bn of which opex synergy run rate was EUR440m and capex synergy of EUR100m. This translated to 7% and 14% of total opex and capex. In 2015, BT acquired EE and announced potential opex and capex annual savings of GBP360m (to peak in 2019/20) which translates to NPV of GBP3.0bn (ex integration costs). This translates to around 7% EE cost base vs. benchmark 17% of Fixed to mobile M&A.

Incorporating Vodafone India in our Idea model

Following the work on synergies and relationship between EBITDA margin and revenue scale, we outline our pro-forma forecasts for Idea, after incorporating the proposed merger with Vodafone (details of the merger deal announced on 20 March 2017, (link). Key details:

1) The combined entity will breach revenue market share caps in 8 circles (using Dec-2016 data), although we believe the current RMS data is not meaningful since Jio is not charging and hence its revenues are not included in the RMS data. Using Dec-2016 data, we believe 4-4.5% of the combined revenues are at risk. However, assuming Jio manages to get 10-15ppt RMS in the next 12-24 months, we believe the revenue at risk will likely come down to 1-2%. We therefore assume the combined entity loses Rs32bn of revenues (4% of total) in the first full year of consolidation, but then recovers upto 80% of these revenue in next three years.

2) We assume integration starts in 2HFY18 as the merger still needs to go through approvals, which could take 12-18 months. We therefore assume synergies be negligible in FY19, 2.6% of FY18 opex in FY20 growing to 7.7% in FY21 and peaking at 12.8% of FY18 opex in FY22 (bulk of the integration would be completed). During the same period, we assume one off costs of Rs80bn and one off capex of Rs53bn to be incurred as part of the integration process.

3) In FY20E (first year of integration), we expect total opex synergies of Rs15bn and capex synergies of Rs6bn, which is slightly below the targets of Rs17bn and Rs11bn highlighted by managements (assuming 20% of peak synergies to be realized in first year).

4) While Idea's 11% stake in Indus and both companies' direct tower assets (amounting to 19.8k towers) are included in the combined entity, Vodafone's 42% stake in Indus will not be included. Our DCF therefore incorporates Rs95bn value for Idea's stake in Indus. The directly owned towers are consolidated by companies and hence the value is captured in the consolidated EBITDA and cash flows.

5) We use same WACC and terminal growth, as we do in our stand-alone model. We only add Rs637bn of debt which will be transferred from

Vodafone India's business to the combined entities balance sheet. We do not assume any reduction in spectrum liabilities (although that remains a source of positive surprise if DOT allows the companies to stop paying for returned spectrum).

6) Using the above assumptions, we derive a DCF value of Rs97 per share (including the new share count), which now forms the basis of our new price target of Rs95 per share. Our pre-consolidation DCF value is broadly unchanged at Rs53 per share, but given high probability of the deal being approved and our confidence in the synergy targets, we use the post-consolidation valuation as our base case valuation.

Figure 33: Idea EV/EBITDA under various scenarios

	FY18E	FY19E	FY20E	FY21E
Idea standalone	10.3	9.1	7.2	5.9
Idea + Voda (pre-synergies)	9.3	8.2	6.7	5.8
Idea + Voda (post synergies)	9.3	9.5	6.9	5.2

Source: UBS estimates

Figure 34: Vodafone-Idea pro-forma – key metrics

	FY18E	FY19E	FY20E	FY21E	FY22E
Revenue					
Idea	351,679	383,266	424,855	466,781	510,161
Vodafone	438,004	465,892	512,296	553,238	583,432
Lost revenue due to RMS breach	-	(31,783)	(22,248)	(12,713)	(6,357)
Total	**789,683**	**817,376**	**914,903**	**1,007,306**	**1,087,237**
Opex					
Idea	267,253	283,309	298,230	315,821	330,280
Vodafone	323,694	340,357	364,189	384,309	398,948
Integration costs	-	23,940	61,920	15,960	7,980
Synergy savings	-	-	(15,291)	(45,874)	(76,457)
Total	**590,947**	**647,606**	**709,048**	**670,216**	**660,752**
EBITDA					
Idea	84,426	99,957	126,625	150,960	179,881
Vodafone	114,310	125,535	148,107	168,930	184,484
Revenue lost	-	(31,783)	(22,248)	(12,713)	(6,357)
Integration costs	-	(23,940)	(61,920)	(15,960)	(7,980)
Cost synergies	-	-	15,291	45,874	76,457
Total	**198,736**	**169,769**	**205,855**	**337,090**	**426,484**
% margin	**25.0%**	**20.6%**	**22.3%**	**33.2%**	**39.0%**
% margin excluding integration costs	**25.0%**	**23.5%**	**29.1%**	**34.8%**	**39.7%**
D&A					
Idea	88,007	92,909	98,355	104,245	108,939
Vodafone	99,458	105,797	111,259	114,657	115,108
Capex synergy impact	-	-	1,542	846	(1,554)
Total	**187,465**	**198,706**	**211,156**	**219,748**	**222,494**
EBIT					
Idea	(3,581)	7,048	28,270	46,716	70,942
Vodafone	14,852	19,738	36,847	54,272	69,375
Revenue lost	-	(31,783)	(22,248)	(12,713)	(6,357)
Integration costs	-	(23,940)	(61,920)	(15,960)	(7,980)
Cost synergies	-	-	15,291	45,874	76,457
D&A savings due to lower capex	-	-	(1,542)	(846)	1,554
Total	**11,271**	**(28,937)**	**(5,301)**	**117,342**	**203,991**
Capex					
Idea	68,140	70,355	73,661	76,173	78,052
Vodafone	78,468	81,151	86,702	90,889	92,946
Synergy impact, net of integration costs	-	15,960	15,416	(6,953)	(24,002)
Total	**146,608**	**167,466**	**175,779**	**160,109**	**146,997**

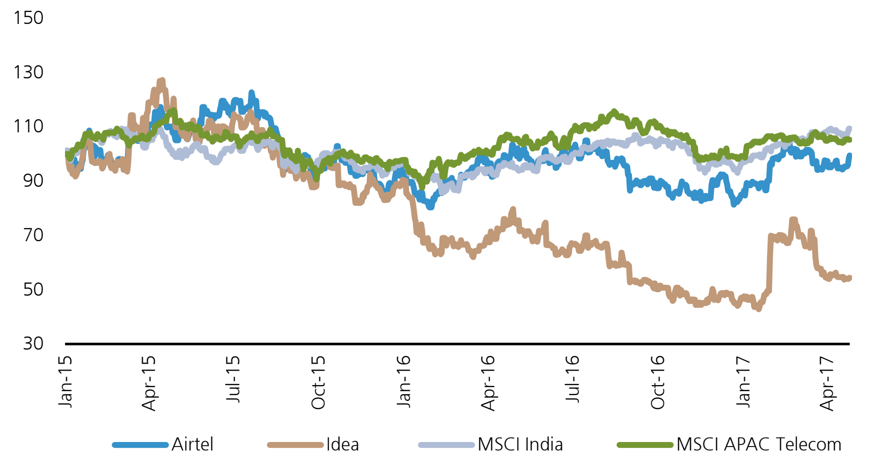
Source: UBS estimates

WHAT'S PRICED IN?

return ↑

Both Airtel and Idea have witnessed share price weakness from mid-2015 to Jan-2017, due to overhang of impending Jio launch. This aggravated in Sep 2016 when Jio announced its commercial launch. The consensus 12-month forward EBITDA estimates for Airtel and Idea are down by ~9% and 20% YTD (fig 40), pricing in most of the Jio impact, in our view. Since the announcement of the Idea-Vodafone merger and post Jio's announcement that it will start charging from April 2017, the stocks have recovered.

Figure 35: Indian telcos share price performance

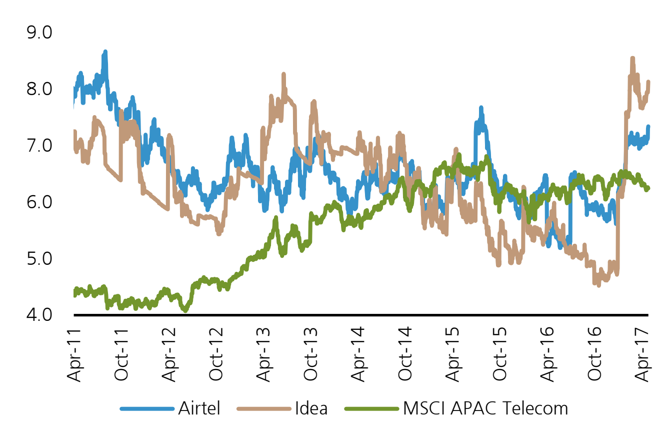


Source: Bloomberg

We use EV/EBITDA as the primary valuation benchmark for Indian telcos. Airtel is trading at FY18E EV/EBITDA of 7.3x, which is in line with global telco average despite having higher EBITDA CAGR of 11.7% (FY18-21E) vs regional EBITDA CAGR of low to mid single digits. Idea's FY8E EV/EBITDA of 10.3x on a standalone and 9.3x on a pro-forma basis (pre-synergies). Using FY20E EBITDA estimates, Idea's pro-forma EV/EBITDA stands at 6.9x including synergies. Comparing with Bharti's EV/EBITDA of 6-6.5x, we believe the risk reward is balanced with a meaningful portion of the synergies priced in the current share price.

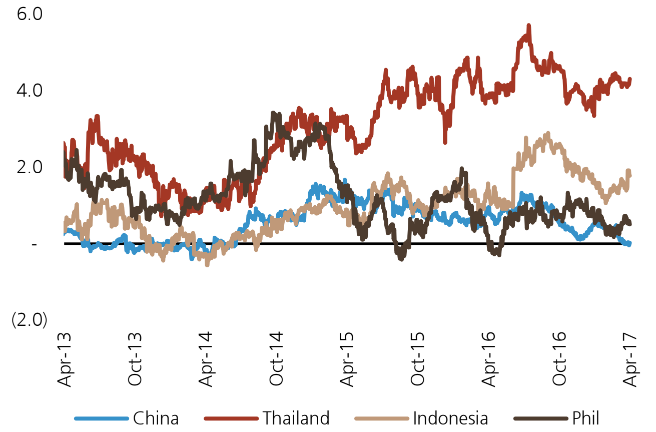
In Fig 37, we show the gap between the EV/EBITDA of market leader and no.2/3 operator in ASEAN markets and China. In most markets the number 1 operators now trade at 2-3x EBITDA multiple premiums to smaller operators vs 2011-12, when multiples were largely similar. We believe this is mainly due to the shift from voice to data, which has increased the capital intensity of the mobile business; as a result, smaller operators with smaller scale struggle to translate their EBITDA to sustainable profits and cash flows.

Figure 36: India telcos 1 year forward EV/EBITDA



Source: Bloomberg

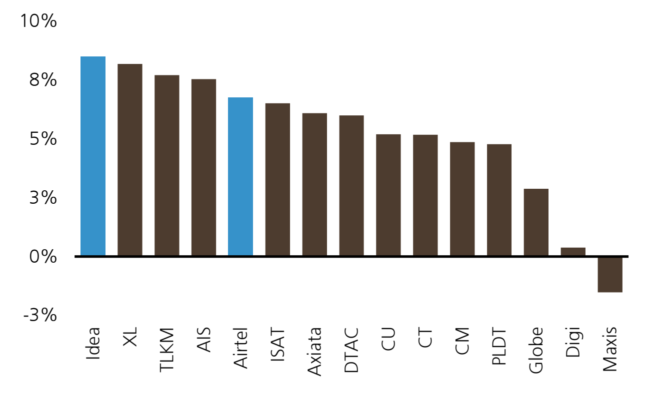
Figure 37: EV/EBITDA gap between #1 and #2-3 operators has expanded in most markets



Source: Bloomberg

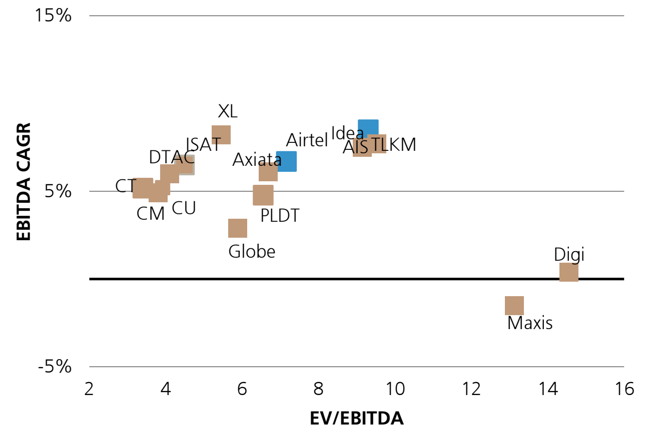
If we compare the Airtel's FY18E EV/EBITDA 7.3x, with other regional telcos, the multiples are largely in line despite better medium-term growth outlook for India, given lower smartphone penetration levels and rising data usage. As seen from fig 38, EBITDA CAGR for Indian telcos is higher than other regional telcos. If we compare the EV/EBITDA multiples with the EBITDA CAGR, Indian telcos are relatively in line or slightly cheaper. In Figure 39, we show a snapshot of key Asian telcos, comparing their EV/EBITDA multiples (FY18E/2017E) against the EBITDA CAGR for 2016-19E. As can be seen, the Indian telcos are attractive on a growth adjusted EV/EBITDA basis.

Figure 38: Asian telcos: EBITDA CAGR 2016-19E (FY17-20E)



Source: Company data, UBS estimates

Figure 39: Asian telcos: EV/EBITDA (2017E) to EBITDA CAGR (2016-19E)



Source: Bloomberg, UBS estimates

Figure 40: Asian EM telcos performance

	YTD performance			Performance since Jan 2016		
	Share Price	Consensus 1 yr fwd EBITDA	Consensus 1 yr fwd EPS	Share Price	Consensus 1 yr fwd EBITDA	Consensus 1 yr fwd EPS
India						
Airtel	17.0%	-8.5%	-30.6%	-5.4%	-4.2%	-41.3%
Idea	15.6%	-20.4%	NM	-39.7%	-31.5%	NM
China						
CM	1.8%	1.4%	1.4%	-1.6%	2.2%	-2.4%
CU	12.1%	-1.8%	-5.8%	9.6%	-10.7%	-43.7%
CT	7.0%	0.6%	-4.1%	7.9%	-0.2%	0.0%
Indonesia						
TLKM	10.6%	2.3%	0.9%	46.3%	24.9%	29.3%
XL	39.8%	1.6%	5.8%	-10.3%	-1.9%	-38.3%
ISAT	10.5%	1.9%	12.3%	29.5%	14.3%	55.2%
Malaysia						
Digi	7.9%	-1.1%	-1.9%	0.8%	-7.9%	-14.9%
Maxis	8.4%	2.6%	2.9%	-1.5%	0.9%	-4.9%
Axiata	8.9%	2.9%	-15.2%	-17.3%	14.3%	-36.1%
Thailand						
AIS	22.4%	3.7%	0.8%	26.6%	-3.5%	-26.1%
DTAC	8.6%	0.2%	-30.9%	39.6%	-5.0%	-71.0%
Philippines						
Globe	44.3%	1.5%	2.7%	23.3%	4.0%	-19.0%
PLDT	34.0%	3.2%	3.1%	-5.8%	-11.4%	-35.6%

Note: Data as of 26th April 2017; Source: Bloomberg

Figure 41: Asian telco valuation comps

Companies	Stock price (LC)	Rating	Price target (LC)	Market cap (US$m)	P/E		EV/EBITDA		Net debt/EBITDA		FCFE Yield (%)		Net Dividend Yield (%)		EPS CAGR	ROE (%)
					2017E	2018E	2017E	2018E	2017E	2018E	2017E	2018E	2017E	2018E	2016-19E	2016
DM pure wireless																
M1	2.09	Neutral	2.10	1,402	14.3	14.5	7.8	7.9	1.3	1.4	4.3	4.6	5.6	5.5	(4.7)	36.4
Smartone	10.32	Not Rated	NA	1,447	13.9	13.9	5.0	4.9	0.3	0.2	15.6	17.8	5.8	5.9	(5.2)	18.6
SKT	244,000	Not Rated	NA	15,213	9.7	9.7	5.2	4.9	1.0	0.8	8.3	9.2	4.1	4.2	9.9	10.6
LGU	14,400	Not Rated	NA	5,500	12.1	10.8	3.7	3.4	1.3	1.0	15.2	14.4	2.6	2.9	8.6	10.6
Taiwan Mobile	112.00	Buy	128.00	10,123	18.3	17.5	10.3	10.0	1.4	1.2	5.0	7.2	5.5	5.7	4.5	26.6
Far-Eastone	73.80	Neutral	78.00	7,985	21.4	21.0	10.1	10.0	1.4	1.3	3.6	6.0	5.1	5.1	1.0	15.7
KDDI	2,888	Not Rated	NA	68,024	15.7	11.7	5.4	5.1	0.4	0.2	7.8	8.3	3.0	3.3	4.0	15.9
Docomo	2,581	Not Rated	NA	90,482	13.6	12.6	6.6	5.7	(0.3)	(0.5)	6.3	6.6	3.3	3.7	6.0	12.0
Softbank	8,366	Not Rated	NA	82,781	13.4	10.9	7.5	6.9	3.8	3.4	5.4	9.2	0.5	0.5	0.7	27.3
Median					**13.9**	**12.6**	**6.6**	**5.7**	**1.3**	**1.0**	**6.3**	**8.3**	**4.1**	**4.2**	**4.0**	**15.9**
DM integrated																
Singtel	3.74	Buy	4.70	42,685	15.4	14.5	8.3	8.0	2.2	2.1	5.5	6.8	4.8	5.1	5.2	14.8
StarHub	2.77	Sell	2.50	3,426	18.0	17.5	8.9	8.9	1.3	1.4	4.0	3.8	5.8	5.8	(7.4)	178.5
HKT Trust	9.89	Not Rated	NA	9,624	14.8	13.8	8.4	8.1	2.6	2.5	9.8	10.0	6.3	6.6	5.2	12.7
PCCW	4.45	Not Rated	NA	4,407	14.1	14.4	5.4	5.2	2.5	2.4	30.3	27.3	6.3	6.4	7.6	17.8
HKBN	8.23	Not Rated	NA	1,064	30.3	18.2	10.3	8.8	3.0	2.5	6.5	8.2	5.7	6.6	38.6	19.5
HTHKH	2.29	Not Rated	NA	1,417	14.7	13.8	5.9	5.6	1.4	1.2	11.0	11.1	5.2	5.5	6.8	6.1
KT Corp	31,200	Not Rated	NA	6,746	9.5	8.9	2.8	2.6	0.9	0.7	17.5	18.1	3.1	3.4	13.6	6.4
Chunghwa	103.00	Buy	138.00	26,530	17.2	16.2	8.6	8.2	(0.4)	(0.5)	5.6	7.2	5.8	6.2	5.5	11.9
NTT	4,711	Not Rated	NA	88,786	10.7	10.7	4.8	4.5	0.9	0.8	8.9	10.3	2.9	3.2	4.3	8.6
Telstra	4.24	Neutral	4.30	38,901	12.5	12.1	6.2	6.0	1.5	1.4	7.4	8.1	7.3	6.8	(0.5)	31.8
TPG	5.92	Buy	7	3,769	12.1	15.1	8.0	8.2	1.5	1.8	(1.8)	(4.4)	2.6	2.5	(6.8)	24.1
Vocus	3.41	Buy	5.00	1,365	10.0	9.5	5.9	5.3	1.9	1.6	8.1	10.1	5.5	6.0	6.6	4.0
Spark NZ	3.68	Neutral	3.50	4,648	17.5	17.8	7.7	7.7	1.0	1.0	5.9	6.0	6.4	6.0	(0.9)	22.4
Median					**14.7**	**14.4**	**7.7**	**7.7**	**1.5**	**1.4**	**7.4**	**8.2**	**5.7**	**6.0**	**5.2**	**14.8**
EM pure wireless																
China Mobile	83.65	Buy	108.00	220,128	13.3	12.8	3.9	3.3	(2.0)	(2.2)	9.0	6.8	3.7	4.1	4.5	11.5
Airtel	357.95	Buy	425.00	22,303	52.8	33.1	7.2	6.6	3.0	2.6	NA	0.6	0.4	0.6	16.1	6.3
Idea Cellular	85.50	Neutral	95.00	4,799	NA	NA	10.3	9.1	7.3	6.3	NA	NA	-	-	13.3	(2.9
RCOM	30.85	Not Rated	NA	1,128	NA	NA	10.3	9.8	8.6	8.2	11.1	21.9	0.2	0.3	NA	(1.3
Indosat	7,125	Buy	8,500	2,909	25.2	19.5	4.4	4.1	1.5	1.3	3.5	5.3	-	-	29.7	9.3
XL Axiata	3,230	Suspended	NA	2,594	NA	131.2	5.7	5.1	1.7	1.4	1.4	2.0	-	-	NA	4.6
Maxis	6.43	Sell	4.80	11,093	26.9	27.4	13.1	13.2	2.2	2.1	4.4	4.5	2.8	2.7	(3.9)	45.0
Digi	5.16	Sell	4.00	9,228	24.8	25.5	14.5	14.7	0.9	1.0	4.1	4.1	4.0	3.9	(2.5)	326.2
Axiata	5.14	Buy	5.55	10,606	52.4	37.1	6.8	6.4	2.1	1.9	0.6	2.3	1.5	2.2	9.5	4.1
AIS	175.50	Neutral	178.00	15,133	18.6	16.6	9.2	8.6	1.7	1.6	2.1	2.2	3.8	4.2	4.1	67.4
Intouch	52.00	Neutral	58.00	4,836	14.1	20.0	12.8	18.0	(0.4)	(0.5)	7.1	5.0	5.5	5.0	(14.4)	103.1
Globe	2,150	Neutral	1,800	5,733	22.9	23.7	6.2	7.4	2.3	2.3	1.4	2.4	4.2	3.3	(8.4)	24.0
DTAC	41.00	Buy	48.00	2,816	44.8	9.3	4.0	3.4	0.8	0.4	9.8	16.2	1.1	5.4	98.9	8.4
Median					**25.0**	**23.7**	**7.2**	**7.4**	**1.7**	**1.6**	**4.1**	**4.3**	**1.5**	**2.7**	**4.5**	**9.3**
EM integrated																
China Unicom	10.12	Buy	11.50	31,146	52.8	33.4	3.9	3.3	1.0	0.7	7.8	6.0	-	1.2	76.2	0.6
CU-A	7.47	Sell	4.90	22,976	117.0	74.0	4.3	4.1	1.3	1.1	17.9	7.6	0.3	0.5	76.2	0.6
China Telecom	3.83	Buy	4.50	39,838	15.4	14.4	3.4	3.2	1.2	1.1	NA	2.7	3.1	3.2	5.9	5.5
Dr Peng	19.48	Neutral	23.50	3,959	24.7	20.9	7.5	6.2	0.5	0.2	1.2	4.6	1.2	1.4	17.1	15.4
Telkom	4,400	Neutral	4,400	32,467	19.6	18.2	9.5	8.8	0.0	0.0	2.9	3.4	3.1	3.3	6.6	24.8
TM	6.47	Neutral	6.25	5,593	32.6	38.5	8.2	8.4	1.5	1.6	1.6	2.7	2.9	2.9	(10.6)	9.2
True Corp	6.40	Neutral	7.50	6,194	NA	49.5	7.7	6.6	2.2	2.0	NA	0.4	-	-	NA	(1.3
PLDT	1,795	Suspended	NA	7,790	19.2	19.3	6.8	7.2	2.1	1.8	2.8	4.1	4.4	3.1	0.0	18.4
Median					**24.7**	**27.2**	**7.2**	**6.4**	**1.2**	**1.1**	**2.8**	**3.8**	**2.1**	**2.2**	**6.6**	**7.4**
Infrastructure / towers																
CCS	4.70	Buy	6.20	4,184	9.7	8.8	2.6	2.0	(3.9)	(3.9)	8.3	7.6	4.1	4.9	11.6	10.5
Wangsu	12.23	Neutral	16.00	4,271	21.6	16.6	19.7	13.4	(2.6)	(2.2)	1.5	3.3	0.7	0.9	19.0	25.5
Infratel	365.55	Buy	400.00	10,539	21.4	19.7	10.1	9.5	(1.1)	(1.1)	5.0	4.9	3.9	4.2	16.1	12.8
Tata Comm	713.60	Not Rated	NA	2,987	35.9	27.4	8.4	7.0	2.4	1.7	5.1	8.0	0.7	0.8	30.9	33.7
TBIG	6,075	Buy	6,300	2,068	29.3	24.0	13.4	12.3	5.6	5.2	NA	NA	0.9	1.3	15.9	56.1
SMN	4,110	Not Rated	NA	3,151	15.7	14.1	9.9	8.8	1.1	0.6	4.7	5.3	1.9	1.8	5.8	33.1
Median					**21.5**	**18.2**	**10.0**	**9.2**	**0.0**	**(0.2)**	**5.0**	**5.3**	**1.4**	**1.6**	**16.0**	**29.3**

Source: Above data as at 26th April 2017. Data is calendarised. Forecasts for not-rated companies are Bloomberg consensus estimates.
Source: Reuters, Bloomberg, UBS estimates

Company pages

Bharti Airtel Ltd

Poised to benefit from a repairing market with an enhanced spectrum portfolio

UBS Evidence Lab survey shows Airtel has high satisfaction among customers

Our survey shows Airtel has highest satisfaction levels with 62% and 33% of subs either "very" or "somewhat" satisfied - highest among incumbents. While we expect Q4FY17E India mobile revenues to be down 6-7% QoQ as Jio's freebies extended until March, we expect operating trends (subscribers and usage) to start showing sequential recovery in Q4FY17E. Airtel remains best positioned to benefit from secular data growth and on-going consolidation in India. The stock trades at 7.3x FY18E EV/EBITDA, broadly inline with regional telco average despite its above-average EBITDA CAGR of 11.7% (FY18-21E CAGR) vs low to mid single digits average for sector.

Countering Jio with aggressive pricing, supporting GBs with enhanced network

Bharti has been leading the incumbents in countering Jio since its introduction of prime offer. While headline rates have remained unchanged, the company is selectively offering packages priced at Rs245 for 70-day 1GB, effectively 15-25% premium to Jio. More importantly, recent acquisitions of Telenor and Tikona strengthen the company's 4G spectrum by adding 1800MHz in seven circles and 2300MHz nationally. These additions put the company in a strong position to expand its 4G capacity, particularly in dense urban areas, where the battle for the premium subscribers is being fought.

Modest changes to earnings; raising price target to Rs425

We update our earnings model to incorporate: i) likely short term ARPU dilution from the launch of counter promos to Jio, ii) Telenor and Tikona acquisitions; and iii) sale of 10% stake in Infratel. The net impact is 3-7% lower EBITDA although earnings take a bigger hit due to lower base effect and higher minority interest (BHIN's 10% profit share). Our price target, however, inches up from Rs400 to Rs425 as we incorporate higher medium-term revenues from the consolidation of Telenor and shift DCF forward from Dec 2017 to March 2018.

Valuation: Attractive at ~7x EBITDA

On our new estimates, Airtel is trading at FY18E EV/EBITDA of 7.3x, which is in-line with the regional average of 7.2x despite higher EBITDA CAGR of 11.7% vs regional EBITDA CAGR of low to mid-single digits. Our 12M forward price target of Rs425 would imply FY19E EV/EBITDA of 7x, still below regional telecom average. We use DCF and DCF-based SOTP to derive our price target.

Equities

India

Wireless Communications

12-month rating	**Buy**
12m price target	**Rs425.00**
	Prior: Rs400.00
Price	**Rs358.20**

RIC: BRTI.BO **BBG:** BHARTI IB

Trading data and key metrics

52-wk range	Rs378.90-293.15
Market cap.	Rs1,432bn/US$22.3bn
Shares o/s	3,997m (ORD)
Free float	23%
Avg. daily volume ('000)	5,646
Avg. daily value (m)	Rs1,987.7
Common s/h equity (03/17E)	Rs693bn
P/BV (03/17E)	2.1x
Net debt / EBITDA (03/17E)	3.0x

EPS (UBS, diluted) (Rs)

	From	To	% ch	Cons.
03/17E	12.98	9.84	-24	10.02
03/18E	10.56	5.75	-46	8.62
03/19E	13.97	12.50	-11	12.03

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Highlights (Rsm)	03/14	03/15	03/16	03/17E	03/18E	03/19E	03/20E	03/21E
Revenues	857,462	920,395	965,321	956,959	950,869	1,062,746	1,148,407	1,235,628
EBIT (UBS)	121,274	158,000	166,215	153,053	123,434	159,208	188,846	219,984
Net earnings (UBS)	27,520	55,780	49,102	39,346	22,989	49,947	70,645	93,337
EPS (UBS, diluted) (Rs)	6.96	13.95	12.28	9.84	5.75	12.50	17.67	23.35
DPS (Rs)	1.80	3.85	1.36	1.82	1.15	2.50	3.53	7.00
Net (debt) / cash	(602,349)	(659,649)	(893,093)	(1,046,222)	(1,006,198)	(969,909)	(907,630)	(824,428)

Profitability/valuation	03/14	03/15	03/16	03/17E	03/18E	03/19E	03/20E	03/21E
EBIT margin %	14.1	17.2	17.2	16.0	13.0	15.0	16.4	17.8
ROIC (EBIT) %	10.5	12.8	11.7	9.3	7.0	8.9	10.5	12.2
EV/EBITDA (core) x	6.6	6.6	6.5	6.8	7.3	6.4	5.7	5.0
P/E (UBS, diluted) x	45.4	26.1	29.6	36.4	62.3	28.7	20.3	15.3
Equity FCF (UBS) yield %	4.0	2.2	(1.4)	(8.7)	(0.8)	0.7	1.9	3.4
Net dividend yield %	0.6	1.1	0.4	0.5	0.3	0.7	1.0	2.0

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Rs358.20 on 26 Apr 2017 20:02 HKT

UBS Research THESIS MAP a guide to our thinking and what's where in this report

OUR THESIS IN PICTURES →

PIVOTAL QUESTIONS

Q: How much market share will Jio achieve as it starts charging?
We estimate Jio's RMS at 5.7% in FY18E, gradually rising to 9.8% by FY20E. While we expect Airtel's RMS to be down in FY18 vs FY17 as Jio starts pricing and Jio RMS is included for the first time, we expect the company to sustain or even slightly gain RMS between FY18-20e given its network and capex headstart vs peers and as smaller operators either exit or lose share. We now assume Bharti's RMS at 30.2% by FY21E vs previous estimate of 28.5%, partly boosted by Telenor consolidation.

more →

Q: Will Bharti's India mobile growth slow to low-single digits in FY17-18?
Yes. The launch of Jio's all free offers and continuation of aggressive packages will impact revenue in the short term, with QoQ revenue decline of 6-7% for Bharti's India mobile business in Q4FY17E, following similar revenue decline in Q3FY17. Over the medium-term, however, we believe Jio's pricing is not dilutive to data ARPUs, which currently stand at Rs150-200. Overall, we estimate Bharti's India mobile revenues to slow from 7.9% growth in FY16 to 0.9%/2.3% in FY17/18 before recovering strongly to 16.8% growth in FY19 (partly boosted by Telenor).

Jio:who survives and who thrives?→

Q: Will capex continue to increase due to data demand?
Yes. Using experience from China and ASEAN, we believe capex will likely remain at around 20% for next 2-3 years. We estimate Bharti's India capex at Rs150-170bn (excluding share of) for next 2-3 years, with likely upside risk if data usage continues to show strong growth. On the positive side, inability of smaller telcos to invest in capex and spectrum has accelerated industry consolidation, which should allow Bharti to increase its dominance in the next 2-3 years.

Jio:who survives and who thrives? →

UBS VIEW

We have a Buy rating on Bharti Airtel. While near-term disruption from the launch of Jio is well appreciated by the market, we believe Jio's entry will trigger industry consolidation as data growth picks-up and voice substitution accelerates, prompting need for heavy investments in capex and specrum. Airtel, with sizeable spectrum holdings and ability to fund capex, will come out winner once the dust settles. The stock remains attractively valued vs regional telco peers at FY18E EV/EBITDA of 7.3x despite higher EBITDA CAGR of 11.7% compared to low to mid single digit EBITDA growth for other regional telcos.

EVIDENCE

The results of UBS Evidence Lab survey show highest satisfaction levels on Airtel among the incumbents, with best performance on parameters such as network coverage and reliability, which are highlighted by customers as the most important in chosing service providers. The company has continued to complement its already strong spectrum footprint by acquiring Telenor and Tikona which will enhance its 4G spectrum holdings vs peers.

WHAT'S PRICED IN?

We believe near-term disruption from Jio is priced in, with Airtel's EV/EBITDA shrinking 100-150bp between mid-2014 to Jan 2017. The stock's EV/EBITDA remains broadly in line regional telco peers despite higher EBITDA CAGR, implying any upside from industry consolidation is not priced in.

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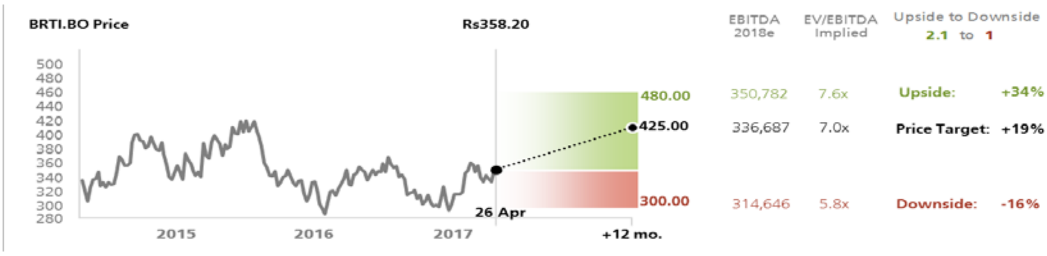
UPSIDE / DOWNSIDE SPECTRUM



Value drivers	Mobile service revenue CAGR (FY17-22E)	Africa revenue CAGR (FY17-22E)	India mobile EBITDA margin (FY22E)	India mobile capex to service revenue (FY22E)
Rs480upside	16.0%	6.6%	41.8%	15.0%
Rs425 base	14.3%	4.9%	40.0%	16.0%
Rs300 downside	7.9%	1.4%	37.1%	18.0%

Source: UBS estimates

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COMPANY DESCRIPTION

Bharti Airtel (Airtel) is the largest mobile operator in India, with a revenue market share of over 30%.

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UPSIDE / DOWNSIDE SPECTRUM

Bharti Airtel is trading at Rs 358.20 (as of 26 Apr 2017)

Value drivers	Mobile service revenue CAGR (FY17-22E)	Africa revenue CAGR (FY17-22E)	India mobile EBITDA margin (FY22E)	India mobile capex to service revenue (FY22E)
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Risk to the current share price is skewed (2.1:1) to the upside

Bharti Airtel is trading at Rs358.20 (as of 26 April 2017).

Upside (Rs480.00): In our upside scenario, we assume lower-than-expected Jio impact and execution challenges of merger for Idea-Vodafone will help drive 150-200bps market share gain for India with relatively stable competition in the mobile market in India. We thus expect healthy India mobile service revenue growth of 16% (FY17-22E CAGR) and margins 150-200bp higher than in our base case. We also assume an improving macro outlook for Africa and better-than-expected contribution from non-mobile India businesses. We derive our upside valuation of Rs480.00 by valuing India mobile at Rs480 EV per share, assuming WACC of 11.6% and a terminal growth rate of 3%. Implied group EV/EBITDA would be 7.6x for FY18E.

Base (Rs425.00): In our base case, we expect competitive intensity will continue to be high as Bharti counters Jio with aggressive pricing. We expect Airtel to defend its market share as Jio gains 13%-14% market share by FY21E, primarily impacting the smaller operators. In Africa, we anticipate a turnaround with an improving macro outlook, leading to a revenue CAGR of 4.9% over FY17-22E. This, coupled with strong performance from non-mobile India businesses such as broadband and DTH (direct to home), would lead to consolidate revenue growth of 6.3% (FY17-22E CAGR). We raise price target to Rs425 (from Rs400 previously) as we incorporate higher term medium term revenues from consolidation of Telenor and roll forward of our DCF estimates. Our sum-of-the-parts method values: 1) the India mobile business at an EV of Rs408 per share vs Rs390 previously (WACC of 11.6% and a terminal growth rate of 3%). 2) Africa at an EV of Rs48 per share; and 3) other businesses contributing EV OF Rs81 per share. Implied FY18E EV/EBITDA is 7.0x.

Downside (Rs300.00): In our downside scenario, we expect the disruptive impact of Jio's entry coupled with a much stronger Idea-Voda entity post merger will lead to Airtel losing 150-200bp of overall market share over the next four to five years. We thus estimate Airtel's mobile service revenue growth to be 7.9% vs 14% in our base case. In this scenario, we believe Africa will remain a difficult market with challenging macroeconomic environment and limited success in data monetisation. Our downside scenario valuation is Rs300.00. Implied group EV/EBITDA would be 5.8x for FY18E.

Airtel - change in estimates

Revenue – We reduce estimates for Airtel's mobile service revenue by 2-5% in FY17 -FY18 to reflect increasing pricing pressure as Airtel tries to match/compete with Jio's aggressive prices. This is partly offset by increase in revenue from Telenor's subscriber addition, full impact of which to be realised in FY19 where we increase our estimates by 2%. We slightly reduce estimates for Airtel's India DTH and enterprise business while we increase revenue estimates from Airtel's tower business by 1-4% as operators continue to expand 4G coverage. We reduce Airtel Africa's revenue estimates by 3-9% in FY17 -FY19 to reflect further pressure on voice and data pricing. Also we change our INR estimates to 66.8 and 69.7 per USD from 67.7 and 71.3 in FY17 and FY18 onwards respectively.

Figure 42: Airtel – change in estimates

Rsm	Old estimates			New estimates			Change in estimates		
India	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E
Mobile Services	575,891	582,691	630,810	565,725	552,908	645,568	-1.8%	-5.1%	2.3%
Home Services	27,609	30,090	32,083	27,897	30,099	32,093	1.0%	0.0%	0.0%
Digital TV Services	34,453	38,032	41,230	34,245	37,258	39,725	-0.6%	-2.0%	-3.7%
Airtel Businesses	112,623	121,775	128,012	110,698	119,693	125,824	-1.7%	-1.7%	-1.7%
Tower Infrastructure Services	60,036	63,037	66,189	60,385	64,849	68,960	0.6%	2.9%	4.2%
Total Revenue	749,164	768,877	826,420	735,833	737,881	835,956	-1.8%	-4.0%	1.2%
EBITDA	309,566	307,585	336,623	300,043	288,564	332,653	-3.1%	-6.2%	-1.2%
Africa									
Revenue	227,296	231,317	248,950	219,671	212,648	225,779	-3.4%	-8.1%	-9.3%
EBITDA	51,844	53,491	58,406	49,840	47,909	50,896	-3.9%	-10.4%	-12.9%
Consolidated									
Revenue	983,235	1,011,137	1,086,767	956,959	950,869	1,062,746	-2.7%	-6.0%	-2.2%
EBITDA	360,900	360,648	394,749	350,979	336,687	383,934	-2.7%	-6.6%	-2.7%
EBIT	157,627	141,185	162,623	153,053	123,434	159,208	-2.9%	-12.6%	-2.1%
PBT	88,523	75,113	99,386	78,480	58,485	96,733	-11.3%	-22.1%	-2.7%
PAT after MI	49,730	42,197	55,832	36,342	22,989	49,947	-26.9%	-45.5%	-10.5%
Operating metrics (India-Mobile)									
Customer base (mn)	265	272	285	270	327	341	1.9%	20.5%	19.5%
Minutes on the network (mn)	1,212,386	1,224,510	1,249,000	1,300,240	1,365,252	1,460,819	7.2%	11.5%	17.0%
Voice Realization / min (paisa)	32.4	30.8	29.9	30.0	27.0	26.2	-7.4%	-12.2%	-12.2%
Data Customer Base (mn)	70.6	81.9	96.1	61.2	79.1	94.4	-13.4%	-3.5%	-1.8%
Total MBs on the network (mn)	819,887	1,284,687	2,109,621	715,901	1,219,533	2,036,353	-12.7%	-5.1%	-3.5%
Data Realization per MB (paisa)	17.4	12.9	10.3	18.9	12.3	10.7	8.3%	-4.8%	3.5%

Source: UBS estimates

EBITDA – We reduce Airtel's consolidated EBITDA estimates by 3-7% in FY17-19 to reflect pressures in the Indian mobile segment and change in INR per USD estimates in Africa business. We reduce EBITDA estimates by 3-6% and 4-13% in Airtel India and Airtel Africa operations respectively for the same period.

Earnings – We reduce our PAT estimates by 11%-46% in FY17-19 mainly to reflect increase in minority interest as result of sale of 10% stake in Infratel besides revenue and earnings downgrades discussed above.

4QFY17 estimates – We estimate both India and Africa mobile service revenue to decline 6% QoQ leading to 5% QoQ decline in consolidated revenue to Rs221.6bn. We estimate consolidated EBITDA to decline 12% QoQ translating to EBITDA margin decline of 280bps QoQ to 33.7%. We estimate net profit after MI to decline to Rs2.1bn vs. Rs5.0bn in 3QFY17.

COMPANY DESCRIPTION

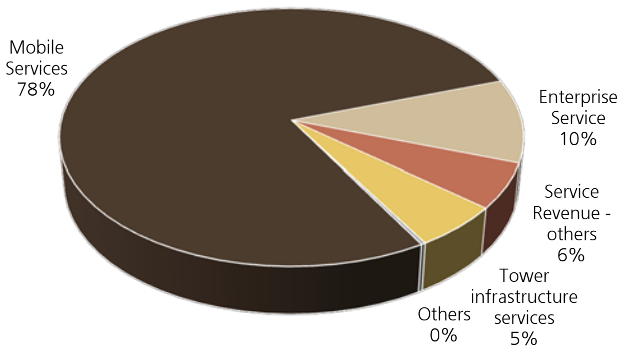
return ↑

Bharti Airtel (Airtel) is the largest mobile operator in India, with revenue market share of over 30%. It also has a significant presence in South Asia (Bangladesh and Sri Lanka) and 15 countries in Africa. In addition, it provides national/international long-distance connectivity, fixed-line/broadband services, DTH/IPTV services and integrated telecom solutions to enterprise customers. Airtel also owns tower infrastructure pertaining to telecom operations through its subsidiary (Bharti Infratel) and joint venture entity (Indus Towers). Singapore Telecom has an over 32% stake in Airtel

Industry outlook

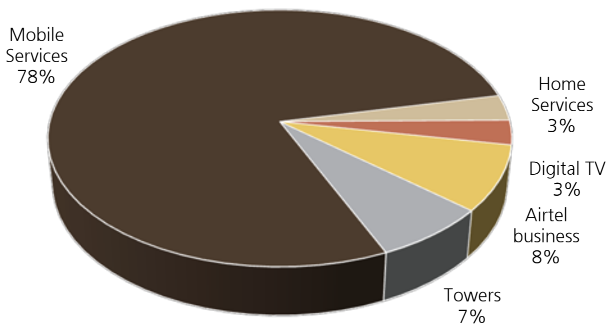
The entry of Jio increases short-term competitive intensity in the Indian mobile market, although we believe Jio's pricing will not be disruptive to medium-term data revenue potential. We believe competition in the Indian mobile market will shift from 'price based' to 'network and volume' based, which implies operators with scale and ability to spend on capex will be able to sustain. On the positive side, we believe Jio's entry would trigger the exit or consolidation of smaller operators, which would ultimately drive the market towards sustainable four to five operators. The fixed broadband and enterprise segments could maintain positive growth, given low fixed broadband penetration in India.

Revenue split (H1 FY17)



Source: Company data

EBITDA by product segment (H1 FY17)



Source: Company data

Bharti Airtel Ltd (BRTI.BO)

Income statement (Rsm)	03/14	03/15	03/16	03/17E	% ch	03/18E	% ch	03/19E	03/20E	03/21E
Revenues	**857,462**	**920,395**	**965,321**	**956,959**	*-0.9*	**950,869**	*-0.6*	**1,062,746**	**1,148,407**	**1,235,628**
Gross profit	-	-	-	-	-	-	-	-	-	-
EBITDA (UBS)	**277,766**	**313,454**	**340,957**	**350,121**	*2.7*	**336,687**	*-3.8*	**383,934**	**425,892**	**469,845**
Depreciation & amortisation	(156,492)	(155,454)	(174,741)	(197,068)	*12.8*	(213,253)	*8.2*	(224,726)	(237,045)	(249,861)
EBIT (UBS)	**121,274**	**158,000**	**166,215**	**153,053**	*-7.9*	**123,434**	*-19.4*	**159,208**	**188,846**	**219,984**
Associates & investment income	5,211	7,223	10,666	11,763	*10.3*	11,725	*-0.3*	12,683	14,810	15,711
Other non-operating income	(12,423)	(23,199)	(19,552)	(11,502)	*41.2*	(1,119)	*90.3*	(1,251)	(1,352)	(1,455)
Net interest	(35,956)	(26,933)	(50,607)	(69,193)	*-36.7*	(75,554)	*-9.2*	(73,907)	(69,571)	(63,586)
Exceptionals (incl goodwill)	538	(7,961)	21,741	(5,642)	-	0	-	0	0	0
Profit before tax	**78,643**	**107,130**	**128,463**	**78,480**	*-38.9*	**58,485**	*-25.5*	**96,733**	**132,734**	**170,654**
Tax	(48,449)	(54,047)	(59,533)	(36,694)	*38.4*	(23,380)	*36.3*	(33,620)	(47,170)	(61,202)
Profit after tax	**30,194**	**53,083**	**68,930**	**41,786**	*-39.4*	**35,105**	*-16.0*	**63,113**	**85,564**	**109,451**
Preference dividends	0	0	0	0	-	0	-	0	0	0
Minorities	(2,467)	(1,248)	(8,163)	(5,444)	*33.3*	(12,116)	*-122.6*	(13,166)	(14,919)	(16,114)
Extraordinary items	0	0	0	0	-	0	-	0	0	0
Net earnings (local GAAP)	**27,727**	**51,835**	**60,767**	**36,342**	*-40.2*	**22,989**	*-36.7*	**49,947**	**70,645**	**93,337**
Net earnings (UBS)	**27,520**	**55,780**	**49,102**	**39,346**	*-19.9*	**22,989**	*-41.6*	**49,947**	**70,645**	**93,337**
Tax rate (%)	61.6	50.4	46.3	46.8	*0.9*	40.0	*-14.5*	34.8	35.5	35.9

Per share (Rs)	03/14	03/15	03/16	03/17E	% ch	03/18E	% ch	03/19E	03/20E	03/21E
EPS (UBS, diluted)	6.96	13.95	12.28	9.84	*-19.9*	5.75	*-41.6*	12.50	17.67	23.35
EPS (local GAAP, diluted)	7.01	12.97	15.20	9.09	*-40.2*	5.75	*-36.7*	12.50	17.67	23.35
EPS (UBS, basic)	6.96	13.96	12.29	9.85	*-19.9*	5.75	*-41.6*	12.50	17.68	23.36
Net DPS (Rs)	1.80	3.85	1.36	1.82	*33.7*	1.15	*-36.7*	2.50	3.53	7.00
Cash EPS (UBS, diluted)[1]	46.53	52.83	56.00	59.15	*5.6*	59.10	*-0.1*	68.72	76.98	85.86
Book value per share	149.49	154.99	167.03	173.33	*3.8*	187.47	*8.2*	197.42	210.93	228.87
Average shares (diluted)	3,955.00	3,998.00	3,997.00	3,997.00	*0.0*	3,997.00	*0.0*	3,997.00	3,997.00	3,997.00

Balance sheet (Rsm)	03/14	03/15	03/16	03/17E	% ch	03/18E	% ch	03/19E	03/20E	03/21E
Cash and equivalents	156,609	147,190	111,432	91,813	*-17.6*	79,902	*-13.0*	91,431	115,895	107,541
Other current assets	103,657	153,021	146,789	148,119	*0.9*	147,681	*-0.3*	155,723	161,881	168,150
Total current assets	**260,266**	**300,211**	**258,221**	**239,932**	*-7.1*	**227,583**	*-5.1*	**247,154**	**277,776**	**275,691**
Net tangible fixed assets	596,429	579,157	610,508	611,255	*0.1*	676,714	*10.7*	750,906	821,711	884,882
Net intangible fixed assets	809,716	922,283	1,112,420	1,300,802	*16.9*	1,277,414	*-1.8*	1,219,369	1,157,101	1,094,832
Investments / other assets	165,361	156,167	276,082	277,259	*0.4*	278,431	*0.4*	279,699	281,180	282,751
Total assets	**1,831,772**	**1,957,818**	**2,257,231**	**2,429,248**	*7.6*	**2,460,141**	*1.3*	**2,497,128**	**2,537,768**	**2,538,157**
Trade payables & other ST liabilities	359,011	423,046	470,272	478,245	*1.7*	471,343	*-1.4*	479,014	487,694	490,945
Short term debt	209,039	211,389	111,839	111,839	*0.00*	111,839	*0.00*	111,839	111,839	111,839
Total current liabilities	**568,050**	**634,435**	**582,112**	**590,084**	*1.4*	**583,183**	*-1.2*	**590,853**	**599,534**	**602,784**
Long term debt	549,919	595,450	892,686	1,026,196	*15.0*	974,261	*-5.1*	949,501	911,685	820,130
Other long term liabilities	74,141	59,844	59,760	59,676	*-0.1*	59,615	*-0.1*	60,737	61,596	62,471
Preferred shares	0	0	0	0	-	0	-	0	0	0
Total liabilities (incl pref shares)	**1,192,110**	**1,289,729**	**1,534,558**	**1,675,956**	*9.2*	**1,617,059**	*-3.5*	**1,601,091**	**1,572,815**	**1,485,385**
Common s/h equity	597,560	619,565	667,693	692,867	*3.8*	749,395	*8.2*	789,184	843,180	914,885
Minority interests	42,102	48,525	54,981	60,425	*9.9*	93,687	*55.0*	106,853	121,773	137,887
Total liabilities & equity	**1,831,772**	**1,957,818**	**2,257,231**	**2,429,248**	*7.6*	**2,460,141**	*1.3*	**2,497,128**	**2,537,768**	**2,538,157**

Cash flow (Rsm)	03/14	03/15	03/16	03/17E	% ch	03/18E	% ch	03/19E	03/20E	03/21E
Net income (before pref divs)	27,727	51,835	60,767	36,342	*-40.2*	22,989	*-36.7*	49,947	70,645	93,337
Depreciation & amortisation	156,492	155,454	174,741	197,068	*12.8*	213,253	*8.2*	224,726	237,045	249,861
Net change in working capital	17,533	(1,639)	(4,172)	(9,374)	*-124.7*	(6,464)	*31.0*	(372)	2,523	(3,019)
Other operating	22,954	36,481	18,978	10,472	*-44.8*	330	*-96.8*	1,605	969	1,279
Operating cash flow	**224,706**	**242,131**	**250,315**	**234,507**	*-6.3*	**230,108**	*-1.9*	**275,907**	**311,182**	**341,457**
Tangible capital expenditure	(109,799)	(143,816)	(189,515)	(208,045)	*-9.8*	(216,444)	*-4.0*	(236,650)	(245,582)	(250,765)
Intangible capital expenditure	(64,860)	(65,970)	(81,452)	(150,500)	*-84.8*	(24,815)	*83.5*	(28,983)	(37,815)	(41,555)
Net (acquisitions) / disposals	(14,053)	663	56,686	65,000	*14.7*	52,060	*-19.9*	0	0	0
Other investing	(61,021)	(11,358)	68,245	10,587	-	10,552	-	11,415	13,329	14,140
Investing cash flow	**(249,733)**	**(220,481)**	**(146,036)**	**(282,958)**	*-93.8*	**(178,646)**	*36.9*	**(254,218)**	**(270,069)**	**(278,180)**
Equity dividends paid	(4,439)	(16,034)	(10,679)	(6,543)	*38.7*	(8,749)	*-33.7*	(5,534)	(12,024)	(17,006)
Share issues / (buybacks)	67,956	0	470	0	-	0	-	0	0	0
Other financing	(12,405)	25,805	41,471	(4,625)	-	(4,625)	*0.00*	(4,625)	(4,625)	(4,625)
Change in debt & pref shares	14,252	(72,454)	(117,833)	40,000	-	(50,000)	-	0	0	(50,000)
Financing cash flow	**65,364**	**(62,683)**	**(86,571)**	**28,832**	-	**(63,374)**	-	**(10,159)**	**(16,649)**	**(71,631)**
Cash flow inc/(dec) in cash	**40,337**	**(41,033)**	**17,708**	**(19,619)**	-	**(11,912)**	*39.3*	**11,529**	**24,464**	**(8,354)**
FX / non cash items	30,192	31,614	(53,466)	0	-	0	-	0	0	0
Balance sheet inc/(dec) in cash	**70,529**	**(9,419)**	**(35,758)**	**(19,619)**	*45.1*	**(11,912)**	*39.3*	**11,529**	**24,464**	**(8,354)**

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.[1]Cash EPS (UBS, diluted) is calculated using UBS net income adding back depreciation and amortization.

Bharti Airtel Ltd (BRTI.BO)

Valuation (x)	03/14	03/15	03/16	03/17E	03/18E	03/19E	03/20E	03/21E
P/E (local GAAP, diluted)	45.1	28.1	23.9	39.4	62.3	28.7	20.3	15.3
P/E (UBS, diluted)	45.4	26.1	29.6	36.4	62.3	28.7	20.3	15.3
P/CEPS	6.8	6.9	6.5	6.1	6.1	5.2	4.7	4.2
Equity FCF (UBS) yield %	4.0	2.2	(1.4)	(8.7)	(0.8)	0.7	1.9	3.4
Net dividend yield (%)	0.6	1.1	0.4	0.5	0.3	0.7	1.0	2.0
P/BV x	2.1	2.3	2.2	2.1	1.9	1.8	1.7	1.6
EV/revenues (core)	2.1	2.3	2.3	2.5	2.6	2.3	2.1	1.9
EV/EBITDA (core)	6.6	6.6	6.5	6.8	7.3	6.4	5.7	5.0
EV/EBIT (core)	15.1	13.2	13.4	15.7	20.0	15.4	12.8	10.7
EV/OpFCF (core)	NM	NM	NM	NM	NM	NM	NM	NM
EV/op. invested capital	1.6	1.7	1.6	1.5	1.4	1.4	1.3	1.3

Enterprise value (Rsm)	03/14	03/15	03/16	03/17E	03/18E	03/19E	03/20E	03/21E
Market cap.	1,257,430	1,453,667	1,454,154	1,431,869	1,431,869	1,431,869	1,431,869	1,431,869
Net debt (cash)	591,816	630,999	776,371	969,658	1,026,210	988,054	938,769	866,029
Buy out of minorities	41,494	45,314	51,753	57,703	77,056	100,270	114,313	129,830
Pension provisions/other	0	0	0	0	0	0	0	0
Total enterprise value	**1,890,740**	**2,129,980**	**2,282,278**	**2,459,229**	**2,535,135**	**2,520,193**	**2,484,951**	**2,427,727**
Non core assets	(56,702)	(46,257)	(60,990)	(62,166)	(63,339)	(64,607)	(66,088)	(67,659)
Core enterprise value	**1,834,038**	**2,083,723**	**2,221,288**	**2,397,063**	**2,471,796**	**2,455,586**	**2,418,863**	**2,360,068**

Growth (%)	03/14	03/15	03/16	03/17E	03/18E	03/19E	03/20E	03/21E
Revenue	11.5	7.3	4.9	-0.9	-0.6	11.8	8.1	7.6
EBITDA (UBS)	19.5	12.8	8.8	2.7	-3.8	14.0	10.9	10.3
EBIT (UBS)	43.6	30.3	5.2	-7.9	-19.4	29.0	18.6	16.5
EPS (UBS, diluted)	16.1	100.5	-12.0	-19.9	-41.6	117.3	41.4	32.1
Net DPS	80.0	113.9	-64.7	33.7	-36.7	117.3	41.4	98.2

Margins & Profitability (%)	03/14	03/15	03/16	03/17E	03/18E	03/19E	03/20E	03/21E
Gross profit margin	-	-	-	-	-	-	-	-
EBITDA margin	32.4	34.1	35.3	36.6	35.4	36.1	37.1	38.0
EBIT margin	14.1	17.2	17.2	16.0	13.0	15.0	16.4	17.8
Net earnings (UBS) margin	3.2	6.1	5.1	4.1	2.4	4.7	6.2	7.6
ROIC (EBIT)	10.5	12.8	11.7	9.3	7.0	8.9	10.5	12.2
ROIC post tax	3.6	5.9	5.7	4.2	3.5	5.3	6.3	7.4
ROE (UBS)	5.0	9.2	7.6	5.8	3.2	6.5	8.7	10.6

Capital structure & Coverage (x)	03/14	03/15	03/16	03/17E	03/18E	03/19E	03/20E	03/21E
Net debt / EBITDA	2.2	2.1	2.6	3.0	3.0	2.5	2.1	1.8
Net debt / total equity %	94.2	98.7	123.6	138.9	119.3	108.2	94.1	78.3
Net debt / (net debt + total equity) %	48.5	49.7	55.3	58.1	54.4	52.0	48.5	43.9
Net debt/EV %	32.8	31.7	40.2	43.6	40.7	39.5	37.5	34.9
Capex / depreciation %	83.1	111.4	140.0	147.1	143.4	145.7	140.5	133.7
Capex / revenue %	12.8	15.6	19.6	21.7	22.8	22.3	21.4	20.3
EBIT / net interest	3.4	5.9	3.3	2.2	1.6	2.2	2.7	3.5
Dividend cover (UBS)	3.9	3.6	9.0	5.4	5.0	5.0	5.0	3.3
Div. payout ratio (UBS) %	25.8	27.6	11.1	18.5	20.0	20.0	20.0	30.0

Revenues by division (Rsm)	03/14	03/15	03/16	03/17E	03/18E	03/19E	03/20E	03/21E
India-Mobile	466,836	519,636	560,818	565,725	552,908	645,568	713,238	787,229
India - Non Mobile	177,671	193,406	209,870	236,177	254,853	269,555	281,388	292,274
Africa	272,488	269,070	251,332	219,671	212,648	225,779	238,434	247,387
South Asia	17,403	15,759	16,454	12,431	7,014	7,404	7,805	8,218
Others	(76,936)	(77,476)	(73,154)	(77,044)	(76,554)	(85,561)	(92,457)	(99,479)
Total	**857,462**	**920,395**	**965,321**	**956,959**	**950,869**	**1,062,746**	**1,148,407**	**1,235,628**

EBIT (UBS) by division (Rsm)	03/14	03/15	03/16	03/17E	03/18E	03/19E	03/20E	03/21E
India-Mobile	90,961	124,065	127,777	104,607	75,544	107,786	135,751	161,471
India - Non Mobile	18,319	28,294	39,244	16,615	19,075	21,141	22,934	24,166
Africa	17,009	11,708	4,787	2,201	(1,817)	(2,893)	(4,897)	(1,462)
South Asia	(4,271)	(6,138)	(6,394)	(4,896)	(4,973)	(4,282)	(3,577)	(2,897)
Others	(745)	71	801	34,526	35,605	37,457	38,636	38,705
Total	**121,274**	**158,000**	**166,215**	**153,053**	**123,434**	**159,208**	**188,846**	**219,984**

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

Idea Cellular

Upgrade to Neutral as synergies from Vodafone merger incorporated

We upgrade Idea from Sell to Neutral: risk reward more balanced

We incorporate the proposed merger with Vodafone with synergies of Rs76bn on opex and Rs29bn on capex, which lift our pro-forma DCF from Rs55 to Rs95 per share. On our pro-forma estimates, Idea is trading at FY18E EV/EBITDA of 9.3x, which declines to 6.9x using FY20E estimates and compares with Bharti's FY20E EV/EBITDA of 5.7x. We close our Sell rating as we see the risk reward as more balanced, but given the higher near-term multiples, we believe the stock is pricing in a large part of the synergies.

UBS Evidence Lab survey shows Jio's satisfaction is high, but pricing is key

We partnered with UBS Evidence Lab to estimate how market shares will evolve as Jio moves from free to paid service. While Jio also comes out strong despite its short history, it lags incumbents on network coverage and reliability, the two key attributes. Its main advantage lies in "value for money", which is gradually coming under pressure as incumbents respond to Jio's packages. We believe Jio's share gains from hereon will be gradual and reduce our RMS estimates for Jio by 1-2ppt in the next 2-3 years.

Incorporating Vodafone on pro-forma basis, synergy target achievable

We introduce our pro-forma estimates for Idea to incorporate the announced merger with Vodafone. Our bottom-up analysis of the cost structure, comparison of Idea's margins with Bharti and study of margin / RMS gap in other markets such as Indonesia and Thailand suggest the synergy targets of Rs84bn opex and Rs56bn capex are aggressive, but achievable. We incorporate opex synergies of Rs76bn by FY22E, which takes the combined entity's margins to 39% compared with 35.3% and 31.6% standalone for Idea and Vodafone and 40% for Bharti's Indian mobile business.

Valuation: Synergies partly priced in, execution risks can't be ignored

On our new estimates, Idea is trading at FY18E EV/EBITDA of 10.3x (standalone) and 9.3x (pro-forma estimates). More importantly, when we look at FY20E pro-forma estimates (when synergies will start to become visible), the current Idea share price implies EV/EBITDA of 6.9x. We use DCF and DCF-based SOTP to derive our price target.

Equities

India

Wireless Communications

12-month rating	**Neutral** *Prior: Sell*
12m price target	**Rs95.00** *Prior: Rs55.00*
Price	**Rs85.50**

RIC: IDEA.BO **BBG:** IDEA IB

Trading data and key metrics

52-wk range	Rs126.50-67.50
Market cap.	Rs308bn/US$4.79bn
Shares o/s	3,601m (ORD)
Free float	38%
Avg. daily volume ('000)	38,945
Avg. daily value (m)	Rs4,023.4
Common s/h equity (03/17E)	Rs245bn
P/BV (03/17E)	1.3x
Net debt / EBITDA (03/17E)	5.6x

EPS (UBS, diluted) (Rs)

	From	To	% ch	Cons.
03/17E	(2.04)	(2.02)	NM	(1.79)
03/18E	(5.83)	(7.53)	NM	(6.18)
03/19E	(5.86)	(6.67)	NM	(4.45)

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Highlights (Rsm)	03/14	03/15	03/16	03/17E	03/18E	03/19E	03/20E	03/21E
Revenues	265,189	315,709	359,494	356,411	351,679	383,266	424,855	466,781
EBIT (UBS)	37,727	55,081	57,113	20,065	(3,581)	7,048	28,270	46,716
Net earnings (UBS)	19,948	31,973	27,280	(7,281)	(27,201)	(24,090)	(10,587)	4,345
EPS (UBS, diluted) (Rs)	6.00	9.00	7.56	(2.02)	(7.53)	(6.67)	(2.93)	1.20
DPS (Rs)	0.40	0.60	0.60	0.00	0.00	0.00	0.00	0.00
Net (debt) / cash	(202,332)	(137,806)	(393,504)	(555,800)	(612,377)	(629,246)	(623,754)	(594,375)

Profitability/valuation	03/14	03/15	03/16	03/17E	03/18E	03/19E	03/20E	03/21E
EBIT margin %	14.2	17.4	15.9	5.6	-1.0	1.8	6.7	10.0
ROIC (EBIT) %	11.8	15.0	11.4	2.8	(0.5)	0.9	3.7	6.3
EV/EBITDA (core) x	8.0	6.6	6.5	7.7	10.3	9.1	7.2	5.9
P/E (UBS, diluted) x	25.0	17.0	19.6	(42.4)	(11.3)	(12.8)	(29.2)	71.1
Equity FCF (UBS) yield %	1.5	7.0	(4.0)	(28.0)	(12.8)	(15.3)	(11.5)	(5.0)
Net dividend yield %	0.3	0.4	0.4	0.0	0.0	0.0	0.0	0.0

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Rs85.50 on 26 Apr 2017 20:06 HKT

UBS Research THESIS MAP a guide to our thinking and what's where in this report

OUR THESIS IN PICTURES →

PIVOTAL QUESTIONS

Q: How much market share will Jio achieve as it starts charging?

We estimate Jio's RMS at 5.7% in FY18E, gradually rising to 9.8% by FY20E. This is below our previous estimates as combination of the results of UBS Evidence Lab survey and our on-ground tariff checks suggest incumbents are narrowing Jio's value for money proposition by launching own packages priced almost at similar levels as Jio. We now assume Idea's FY21E RMS at 18.1%, similar to our previous estimate of 18.2% and including the results of Vodafone, the RMS is 37-38%.

more →

Q: Will mobile revenue growth in India slow to low-single digits in FY17-18?

Yes. The launch of Jio's all free offers and continuation of aggressive packages will impact revenue in the short term, with QoQ revenue decline of 6-7% for Idea in Q4FY17E, following similar revenue decline in Q4FY17E. Over the medium-term, however, we believe Jio's pricing is not dilutive to data ARPUs, which currently stand at Rs150-200. Overall, we estimate Idea's service revenues to slow from 14% growth in FY16 to -6.8% in FY17 and -1.3% growth in FY18, although QoQ trends should show improvement from as early as Q1FY18.

Jio:who survives and who thrives? →

Q: Could Idea achieve management's target of Rs140bn annual synergies?

Aggressive, but achievevable. Idea announced cost and capex synergies of Rs84bn and Rs56bn, within 3-4 years of the merger. After analysing the cost structure of Idea, comparing Idea's margins with Bharti, comparing margin and RMS differential in other markets such as Indonesia and Thailand, and based on European M&A examples; we believe Idea's synergy target, while aggressive is achievable. In our pro-forma estimates, we assume steady state opex savings of Rs76bn, slightly below management target, with combined entity's EBITDA margins reaching 39% by FY22E vs 40% for Bharti's mobile India business.

more →

UBS VIEW

We upgrade our rating on Idea from Sell to Neutral as we incorporate the impact of Vodafone merger and potential synergies from network integration. While the acquisition improves the combined entity's spectrum positioning and ability to compete in a data-centric world, the stock's YTD strength implies its now trading at pro-forma FY18E EV/EBITDA of 9.3x and FY20E EV/EBITDA of 6.9x after including synergies. This makes the risk-reward balanced as Bharti's FY20E EV/EBITDA stands at 5.7x.

EVIDENCE

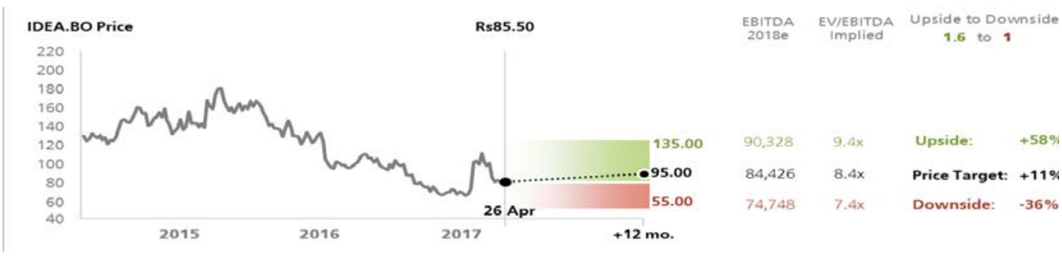
The results of UBS Evidence Lab survey show Idea's satisfaction levels are behind both Jio and Airtel, suggesting capex and spectrum disadvantages have impacted customer perception in the past 12 months. On the margin front, our study of Idea's cost structure, comparison of its margins with Bharti and analysis of market share / margin differential in other markets supports our view that 7-8ppt margin increase is possible for the combined entity.

WHAT'S PRICED IN?

We believe Idea shares are pricing in part of the synergies but ignoring execution risks going into integration. The pro-forma valuation stands at FY18E EV/EBITDA of 9.3x and FY20E EV/EBITDA of 6.9x, limiting room for positive surprises vs Bharti in our view.

more →

UPSIDE / DOWNSIDE SPECTRUM



Value drivers	Mobile service revenue CAGR (FY17-22E)	EBITDA Margin (FY22E)	Capex to service revenue (FY22E)	Capex synergies (FY18-22E)	Network synergies (FY18-22E)
Rs135.00 upside	8.4%	37.7%	14.0%	30.0%	25.0%
Rs95.00 base	7.4%	35.3%	15.0%	20.0%	20.0%
Rs55.00 downside	6.7%	32.3%	16.0%	10.0%	15.0%

more→

COMPANY DESCRIPTION

Idea Cellular (Idea) is the third largest mobile service operator in India, with a revenue market share of

more→

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UPSIDE / DOWNSIDE SPECTRUM

return ↑

Idea is trading at Rs85.50 (as of 26 Apr 2017)

Value drivers	Mobile service revenue CAGR (FY17-22E)	EBITDA Margin (FY22E)	Capex to service revenue (FY22E)	Capex synergies (FY18-22E)	Network synergies (FY18-22E)
Rs135.00 upside	8.4%	37.7%	14.0%	30.0%	25.0%
Rs95.00 base	7.4%	35.3%	15.0%	20.0%	20.0%
Rs55.00 downside	6.7%	32.3%	16.0%	10.0%	15.0%

Risk to the current share price is skewed (1.7:1) to the upside

Idea Cellular is trading at Rs85.50 (as of 26 April 2017).

Upside (Rs135.00): In our upside scenario, we assume lower-than-expected Jio impact with relatively stable competition in the mobile market, will lead to discipline in data pricing. We expect mobile service revenue growth for Idea standalone to be 8.4% (FY17-22E CAGR) and margins 200-250bp higher than our base case. We expect capex intensity to stabilize; this coupled with rationalization of the network footprint for the combined entity could lead to significant opex and capex savings. We thus expect capex and network synergies from the Vodafone merger to be higher than base case, leading to incremental cost savings of Rs25-30bn vs base case over a four year period. With improving margins and lower capex, our upside price target for the combined entity is Rs135.00. Implied FY18E EV/EBITDA for Idea is 9.4x.

Base (Rs95.00): We expect high competitive intensity would continue to impact ARPUs in the medium term leading to a modest mobile revenue growth of 7.4% (FY17-21E CAGR) vs 15-18%+ over FY14-16. This, coupled with pressure on margins, would lead to an EBITDA decline of 2% in FY18E. In our base case, we now incorporate the impact of merger with Vodafone and raise our price target to Rs95 from Rs55 previously. We expect total combined entity to have a revenue market share and subscriber market share of 39.7% and 34.1%. We believe the combined entity will generate capex and opex savings of ~Rs100bn over FY18-22. We thus upgrade Idea's rating to Neutral. Our price target of Rs95.00 assumes – 1) Idea stand alone valued at Rs53 per share using DCF valuation method with WACC of 11.8% and a terminal growth rate of 3%; 2) Combined entity to have EV of Rs1.9trn, equity value of Rs703bn and FY18 Net debt/EBITDA of ~4.67. Implied FY18E EV/EBITDA stands at 6.5x

Downside (Rs55.00): In our downside scenario, we expect a disruptive impact of Jio's mobile entry, will lead to continued pressure on mobile ARPUs, we estimate mobile revenue growth of 6.7% (FY17-22E CAGR), 150-200bp below our base case. In this scenario, we also assume significant challenges in execution of merger will lead to higher integration costs and relatively lower synergies. Our downside valuation for combined entity stands at Rs55.00. Implied 2018E EV/EBITDA is 7.4x.

Idea - change in stand-alone estimates

Revenue – We reduce estimate for Idea's data yields by 3-10% in FY17-19 causing mobile service revenue estimate decline by 2-5% partially offset by our increase in data volume estimates by 2-9%. Note that Idea's data yields fell by 15% QoQ in 3QFY17. We also lower voice yields by over 2% in FY18-19. Voice yields declined 13% QoQ in 3QFY17. Overall, we lower Idea's revenue estimates by 2-5% in FY17-19.

EBITDA – Slower revenue growth and high network expenses will put further pressure on EBITDA in our view – we lower EBITDA estimates by 6-18% in FY17-19. Network expenses as percentage of mobile service revenue increased to 32.3% in 3QFY17 from 28.2% in 2QFY17. This is higher than our prior expectations. We raise network costs to 30.5% and 35.8% of mobile service revenue in FY17 and FY18 to reflect this from our prior estimate of 29.3% and 32.0%. .

Earnings – The decline in revenue and EBITDA estimates discussed above leads to NPAT decline by 14-29% in FY18-19. In absolute terms we expect Idea's net loss to increase to Rs27.2bn and Rs24.1bn from Rs21.0bn and Rs21.1bn in FY18 and FY19.

4QFY17 estimates - We expect mobile service revenue to decline 6% QoQ and 15% YoY and overall revenue to decline 5% QoQ and 14% YoY. We estimate EBITDA to decline 15% QoQ translating to EBITDA margin decline of 260bps QoQ to 22.4%. We estimate net loss to widen to Rs6.6bn vs. Rs3.8bn in 3QFY17.

Figure 43: Idea– change in estimates

Rsm	Old estimates			New estimates			Change in estimates		
Idea – financials	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E
Service revenue - Mobile	362,497	369,419	396,002	356,278	349,484	381,442	-1.7%	-5.4%	-3.7%
Service revenue - Non Mobile	7,035	9,146	9,420	7,035	9,146	9,420	0.0%	0.0%	0.0%
Total service revenue	369,532	378,564	405,422	363,314	358,630	390,862	-1.7%	-5.3%	-3.6%
Non-service revenue	228	228	228	228	228	228	0.0%	0.0%	0.0%
Total revenue	362,630	371,342	397,671	356,411	351,679	383,266	-1.7%	-5.3%	-3.6%
EBITDA	105,591	103,322	114,783	99,126	84,426	99,957	-6.1%	-18.3%	-12.9%
EBIT	22,326	7,465	13,648	20,065	(3,581)	7,048	-10.1%	-148.0%	-48.4%
NPAT	(7,376)	(21,039)	(21,147)	(7,281)	(27,201)	(24,090)	1.3%	-29.3%	-13.9%
Operating Metrics									
Idea subs base: End of the period	181	185	195	182	186	196	0.5%	0.5%	0.5%
Data subs	51	58	66	51	58	69	0.5%	0.5%	3.4%
Voice volume (mn)	824,826	805,513	793,042	818,532	801,370	788,933	-0.8%	-0.5%	-0.5%
Yield per minute (RPM)	31.2	30.3	29.7	31.2	29.7	29.1	0.0%	-2.1%	-2.1%
Data volume (mn MB)	480,606	834,476	1,444,497	484,046	847,786	1,569,929	0.7%	1.6%	8.7%
Yield per MB	15.9	11.5	8.9	15.4	10.3	8.1	-3.0%	-9.7%	-9.7%

Source: UBS estimates

COMPANY DESCRIPTION

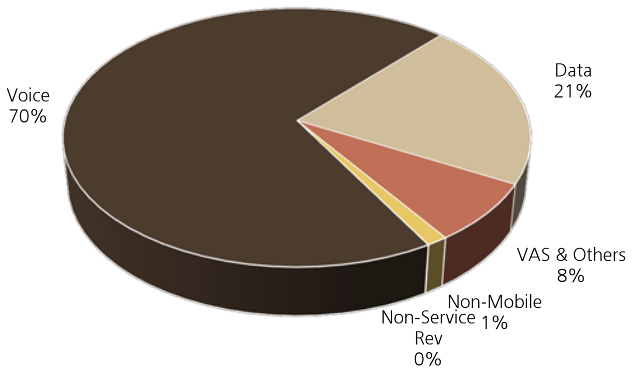
return ↑

Idea Cellular (Idea) is the third largest mobile service operator in India, with a revenue arket share of over 18% and a subscriber base of over 178.8m as on Sep 2016. Idea has won 4G spectrum in 10 key markets and has initiated 4G services in India starting in 2016. Idea also owns telecom tower infrastructure through its 16% stake in Indus Towers. Idea is part of the Aditya Birla Group. Axiata Malaysia is a major shareholder (19.78%).

Industry outlook

The entry of Jio increases short-term competitive intensity in the Indian mobile market, although we believe Jio's pricing will not be disruptive to medium-term data revenue potential. We believe competition in the Indian mobile market will shift from 'price based' to 'network and volume' based, which implies operators with scale and ability to spend on capex will be able to survive. On the positive side, we believe Jio's entry would trigger the exit or consolidation of smaller operators, which would ultimately drive the market towards sustainable four to five operators. The fixed broadband and enterprise segments could maintain positive growth, given low fixed broadband penetration in India.

Revenue by product segment (H1 FY17)



Source: Company data

Idea Cellular (IDEA.BO)

Income statement (Rsm)	03/14	03/15	03/16	03/17E	% ch	03/18E	% ch	03/19E	03/20E	03/21E
Revenues	**265,189**	**315,709**	**359,494**	**356,411**	-0.9	**351,679**	-1.3	**383,266**	**424,855**	**466,781**
Gross profit	-	-	-	-	-	-	-	-	-	-
EBITDA (UBS)	**82,921**	**108,117**	**119,674**	**99,126**	-17.2	**84,426**	-14.8	**99,957**	**126,625**	**150,960**
Depreciation & amortisation	(45,194)	(53,036)	(62,560)	(79,062)	26.4	(88,007)	11.3	(92,909)	(98,355)	(104,245)
EBIT (UBS)	**37,727**	**55,081**	**57,113**	**20,065**	-64.9	**(3,581)**	-	**7,048**	**28,270**	**46,716**
Associates & investment income	0	0	4,216	4,948	17.4	5,038	1.8	5,450	6,364	6,751
Other non-operating income	1,280	3,582	83	0	-	0	-	0	0	0
Net interest	(8,147)	(9,269)	(18,913)	(37,535)	-98.5	(42,476)	-13.2	(49,248)	(52,485)	(50,153)
Exceptionals (incl goodwill)	(417)	(68)	0	0	-	0	-	0	0	0
Profit before tax	**30,443**	**49,325**	**42,499**	**(12,523)**	-	**(41,018)**	-227.6	**(36,750)**	**(17,851)**	**3,314**
Tax	(10,764)	(17,396)	(15,220)	5,241	-	13,817	163.6	12,660	7,265	1,031
Profit after tax	**19,678**	**31,929**	**27,280**	**(7,281)**	-	**(27,201)**	-273.6	**(24,090)**	**(10,587)**	**4,345**
Preference dividends	0	0	0	0	-	0	-	0	0	0
Minorities	0	0	0	0	-	0	-	0	0	0
Extraordinary items	0	0	0	0	-	0	-	0	0	0
Net earnings (local GAAP)	**19,678**	**31,929**	**27,280**	**(7,281)**	-	**(27,201)**	-273.6	**(24,090)**	**(10,587)**	**4,345**
Net earnings (UBS)	**19,948**	**31,973**	**27,280**	**(7,281)**	-	**(27,201)**	-273.6	**(24,090)**	**(10,587)**	**4,345**
Tax rate (%)	35.4	35.3	35.8	0.0	-	0.0	-	0.0	0.0	0.0

Per share (Rs)	03/14	03/15	03/16	03/17E	% ch	03/18E	% ch	03/19E	03/20E	03/21E
EPS (UBS, diluted)	6.00	9.00	7.56	(2.02)	-	(7.53)	-273.6	(6.67)	(2.93)	1.20
EPS (local GAAP, diluted)	5.92	8.99	7.56	(2.02)	-	(7.53)	-273.6	(6.67)	(2.93)	1.20
EPS (UBS, basic)	6.01	9.04	7.58	(2.02)	-	(7.55)	-273.6	(6.69)	(2.94)	1.21
Net DPS (Rs)	0.40	0.60	0.60	0.00	-	0.00	-	0.00	0.00	0.00
Cash EPS (UBS, diluted)[1]	19.59	23.93	24.89	19.88	-20.1	16.84	-15.3	19.06	24.31	30.08
Book value per share	49.83	64.04	71.65	68.08	-5.0	56.69	-16.7	46.48	41.53	42.45
Average shares (diluted)	3,325.23	3,552.18	3,609.01	3,610.51	0.0	3,610.51	0.0	3,610.51	3,610.51	3,610.51

Balance sheet (Rsm)	03/14	03/15	03/16	03/17E	% ch	03/18E	% ch	03/19E	03/20E	03/21E
Cash and equivalents	4,036	130,805	21,546	24,943	15.8	20,183	-19.1	27,967	28,309	29,060
Other current assets	20,905	23,851	24,851	24,741	-0.4	24,572	-0.7	25,701	27,186	28,684
Total current assets	**24,942**	**154,656**	**46,397**	**49,685**	7.1	**44,755**	-9.9	**53,668**	**55,495**	**57,744**
Net tangible fixed assets	218,632	213,136	242,914	262,056	7.9	273,626	4.4	282,510	289,253	292,619
Net intangible fixed assets	77,387	142,261	440,065	567,407	28.9	566,796	-0.1	536,932	505,495	474,058
Investments / other assets	144,613	94,615	97,125	97,620	0.5	98,124	0.5	98,669	99,305	99,980
Total assets	**465,575**	**604,668**	**826,501**	**976,768**	18.2	**983,301**	0.7	**971,778**	**949,548**	**924,401**
Trade payables & other ST liabilities	61,608	71,402	83,866	80,962	-3.5	76,697	-5.3	77,271	78,042	78,209
Short term debt	25,065	102,559	49,346	49,346	0.00	49,346	0.00	49,346	49,346	49,346
Total current liabilities	**86,673**	**173,961**	**133,212**	**130,308**	-2.2	**126,043**	-3.3	**126,617**	**127,388**	**127,555**
Long term debt	181,284	166,032	365,685	531,378	45.3	583,195	9.8	607,848	602,697	574,070
Other long term liabilities	32,348	34,383	69,929	69,929	0.0	69,929	0.0	69,929	69,929	69,929
Preferred shares	19	19	19	19	0.00	19	0.00	19	19	19
Total liabilities (incl pref shares)	**300,324**	**374,395**	**568,845**	**731,635**	28.6	**779,186**	6.5	**804,413**	**800,034**	**771,574**
Common s/h equity	165,250	230,273	257,656	245,134	-4.9	204,115	-16.7	167,365	149,514	152,827
Minority interests	0	0	0	0	-	0	-	0	0	0
Total liabilities & equity	**465,575**	**604,668**	**826,501**	**976,768**	18.2	**983,301**	0.7	**971,778**	**949,548**	**924,401**

Cash flow (Rsm)	03/14	03/15	03/16	03/17E	% ch	03/18E	% ch	03/19E	03/20E	03/21E
Net income (before pref divs)	19,678	31,929	27,280	(7,281)	-	(27,201)	-273.6	(24,090)	(10,587)	4,345
Depreciation & amortisation	45,194	53,036	62,560	79,062	26.4	88,007	11.3	92,909	98,355	104,245
Net change in working capital	5,354	5,540	(3,429)	(2,793)	18.5	(4,096)	-46.6	(554)	(714)	(1,331)
Other operating	5,272	8,132	25,420	(10,190)	-	(18,855)	-85.0	(18,110)	(13,628)	(7,782)
Operating cash flow	**75,498**	**98,637**	**111,831**	**58,797**	-47.4	**37,854**	-35.6	**50,154**	**73,426**	**99,476**
Tangible capital expenditure	(36,448)	(41,576)	(75,157)	(72,663)	3.3	(68,140)	6.2	(70,355)	(73,661)	(76,173)
Intangible capital expenditure	(31,436)	(19,350)	(58,082)	(72,190)	-24.3	(9,009)	87.5	(26,920)	(35,151)	(38,627)
Net (acquisitions) / disposals	0	0	0	0	-	0	-	0	0	0
Other investing	1,254	2,555	1,122	4,454	-	4,534	-	4,905	5,727	6,076
Investing cash flow	**(66,630)**	**(58,371)**	**(132,117)**	**(140,400)**	-6.3	**(72,615)**	48.3	**(92,370)**	**(103,085)**	**(108,725)**
Equity dividends paid	(1,306)	(2,792)	(2,598)	0	-	0	-	0	0	0
Share issues / (buybacks)	263	37,374	175	0	-	0	-	0	0	0
Other financing	0	0	0	0	0.00	0	0.00	0	0	0
Change in debt & pref shares	(15,936)	52,355	(86,558)	85,000	-	30,000	-64.71	50,000	30,000	10,000
Financing cash flow	**(16,979)**	**86,936**	**(88,981)**	**85,000**	-	**30,000**	-64.7	**50,000**	**30,000**	**10,000**
Cash flow inc/(dec) in cash	**(8,111)**	**127,202**	**(109,267)**	**3,398**	-	**(4,761)**	-	**7,785**	**341**	**752**
FX / non cash items	438	(434)	8	0	-99.9	0	0.0	0	0	0
Balance sheet inc/(dec) in cash	**(7,673)**	**126,768**	**(109,259)**	**3,398**	-	**(4,761)**	-	**7,785**	**341**	**752**

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.[1]Cash EPS (UBS, diluted) is calculated using UBS net income adding back depreciation and amortization.

Idea Cellular (IDEA.BO)

Valuation (x)	03/14	03/15	03/16	03/17E	03/18E	03/19E	03/20E	03/21E
P/E (local GAAP, diluted)	25.4	17.0	19.6	NM	NM	NM	NM	71.1
P/E (UBS, diluted)	25.0	17.0	19.6	(42.4)	(11.3)	(12.8)	(29.2)	71.1
P/CEPS	7.6	6.4	5.9	4.3	5.1	4.5	3.5	2.8
Equity FCF (UBS) yield %	1.5	7.0	(4.0)	(28.0)	(12.8)	(15.3)	(11.5)	(5.0)
Net dividend yield (%)	0.3	0.4	0.4	0.0	0.0	0.0	0.0	0.0
P/BV x	3.0	2.4	2.1	1.3	1.5	1.8	2.1	2.0
EV/revenues (core)	2.5	2.3	2.2	2.1	2.5	2.4	2.1	1.9
EV/EBITDA (core)	8.0	6.6	6.5	7.7	10.3	9.1	7.2	5.9
EV/EBIT (core)	17.6	12.9	13.6	NM	NM	NM	NM	19.1
EV/OpFCF (core)	12.8	9.9	18.9	NM	NM	NM	17.4	12.1
EV/op. invested capital	2.1	1.9	1.6	1.1	1.1	1.2	1.2	1.2

Enterprise value (Rsm)	03/14	03/15	03/16	03/17E	03/18E	03/19E	03/20E	03/21E
Market cap.	497,223	541,759	532,570	307,888	307,888	307,888	307,888	307,888
Net debt (cash)	165,540	170,069	265,655	474,652	584,088	620,812	626,500	609,065
Buy out of minorities	0	0	0	0	0	0	0	0
Pension provisions/other	0	0	0	0	0	0	0	0
Total enterprise value	**662,763**	**711,828**	**798,225**	**782,540**	**891,977**	**928,700**	**934,388**	**916,953**
Non core assets	0	0	(21,405)	(21,900)	(22,404)	(22,949)	(23,585)	(24,260)
Core enterprise value	**662,763**	**711,828**	**776,820**	**760,640**	**869,573**	**905,751**	**910,803**	**892,693**

Growth (%)	03/14	03/15	03/16	03/17E	03/18E	03/19E	03/20E	03/21E
Revenue	18.1	19.1	13.9	-0.9	-1.3	9.0	10.9	9.9
EBITDA (UBS)	38.1	30.4	10.7	-17.2	-14.8	18.4	26.7	19.2
EBIT (UBS)	49.3	46.0	3.7	-64.9	-	-	NM	65.2
EPS (UBS, diluted)	94.5	50.0	-16.0	-	NM	11.4	56.1	-
Net DPS	33.3	50.0	0.0	-	-	-	-	-

Margins & Profitability (%)	03/14	03/15	03/16	03/17E	03/18E	03/19E	03/20E	03/21E
Gross profit margin	-	-	-	-	-	-	-	-
EBITDA margin	31.3	34.2	33.3	27.8	24.0	26.1	29.8	32.3
EBIT margin	14.2	17.4	15.9	5.6	-1.0	1.8	6.7	10.0
Net earnings (UBS) margin	7.5	10.1	7.6	NM	NM	NM	NM	0.9
ROIC (EBIT)	11.8	15.0	11.4	2.8	(0.5)	0.9	3.7	6.3
ROIC post tax	7.6	9.7	6.9	2.8	NM	0.9	3.7	6.3
ROE (UBS)	12.9	16.2	11.2	(2.9)	(12.1)	(13.0)	(6.7)	2.9

Capital structure & Coverage (x)	03/14	03/15	03/16	03/17E	03/18E	03/19E	03/20E	03/21E
Net debt / EBITDA	2.4	1.3	3.3	5.6	7.3	6.3	4.9	3.9
Net debt / total equity %	122.4	59.8	152.7	226.7	NM	NM	NM	NM
Net debt / (net debt + total equity) %	55.0	37.4	60.4	69.4	75.0	79.0	80.7	79.5
Net debt/EV %	30.5	19.4	50.7	73.1	70.4	69.5	68.5	66.6
Capex / depreciation %	93.8	90.6	156.5	135.8	120.5	114.5	110.1	104.6
Capex / revenue %	13.7	13.2	20.9	20.4	19.4	18.4	17.3	16.3
EBIT / net interest	4.6	5.9	3.0	0.5	NM	0.1	0.5	0.9
Dividend cover (UBS)	15.0	15.1	12.6	-	-	-	-	-
Div. payout ratio (UBS) %	6.7	6.6	7.9	-	-	-	-	-

Revenues by division (Rsm)	03/14	03/15	03/16	03/17E	03/18E	03/19E	03/20E	03/21E
Mobile	265,774	317,122	361,530	356,278	349,484	381,442	423,598	466,090
Non Mobile	22,438	24,610	28,140	7,035	9,146	9,420	9,703	9,994
Others	(23,023)	(26,022)	(30,176)	(6,902)	(6,951)	(7,596)	(8,446)	(9,302)
Total	**265,189**	**315,709**	**359,494**	**356,411**	**351,679**	**383,266**	**424,855**	**466,781**

EBIT (UBS) by division (Rsm)	03/14	03/15	03/16	03/17E	03/18E	03/19E	03/20E	03/21E
Majorly Mobile	37,727	55,081	57,113	20,065	(3,581)	7,048	28,270	46,716
Others	0	0	0	0	0	0	0	0
Total	**37,727**	**55,081**	**57,113**	**20,065**	**(3,581)**	**7,048**	**28,270**	**46,716**

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

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Bharti Airtel Ltd Investment case

We have a Buy rating on Bharti Airtel. While near-term disruption from the launch of Jio is well appreciated by the market, we believe Jio's arrival will: i) accelerate data usage at the cost of data yields, ii) trigger voice substitution, given the move towards unlimited plans; and iii) drive consolidation or the exit of smaller operators. We believe larger telcos, such as Airtel, with sizeable spectrum holdings and ability to fund capex will come out winners.

Idea Cellular Investment case

We upgrade our rating on Idea from Sell to Neutral as we incorporate the impact of Vodafone merger and potential synergies from network integration. Our price target goes from Rs55 to Rs95, due to the incorporation of Rs76bn and Rs29bn of annualized opex and capex synergies. We believe the combined entity has the spectrum footprint and ability to invest in capex to support growing data usage, but execution over the next 2-3 years, going into integration is a key challenge.

Valuation Method and Risk Statement

We use DCF and DCF-based SOTP to arrive at our price targets for Idea and Bharti Airtel. We believe the key downside risk is from competition, especially Jio which will continue to offer free packages until March 2017. We also see voice substitution and high capex as key risks for telcos. The key upside risk comes from potential industry consolidation.

In terms of company specific risk, Bharti Airtel, being present in 15 nations in Africa faces regulatory risks and foreign currency risks in each of the country. Idea faces balance sheet risk – any further increase in capex can put cash flows at risk on account of high gearing.

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Buy	FSR is > 6% above the MRA.	46%	30%
Neutral	FSR is between -6% and 6% of the MRA.	38%	28%
Sell	FSR is > 6% below the MRA.	16%	18%
Short-Term Rating	**Definition**	**Coverage[3]**	**IB Services[4]**
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 31 March 2017.
1:Percentage of companies under coverage globally within the 12-month rating category.
2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
3:Percentage of companies under coverage globally within the Short-Term rating category.
4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

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Company Disclosures

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
Bharti Airtel Ltd	BRTI.BO	Buy	N/A	Rs357.95	26 Apr 2017
Idea Cellular[3]	IDEA.BO	Sell	N/A	Rs85.50	26 Apr 2017

Source: UBS. All prices as of local market close.
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date
3. UBS is acting as financial advisor for Vodafone Group PLC in relation to the merge of Vodafone India Ltd with Idea Cellular Ltd.

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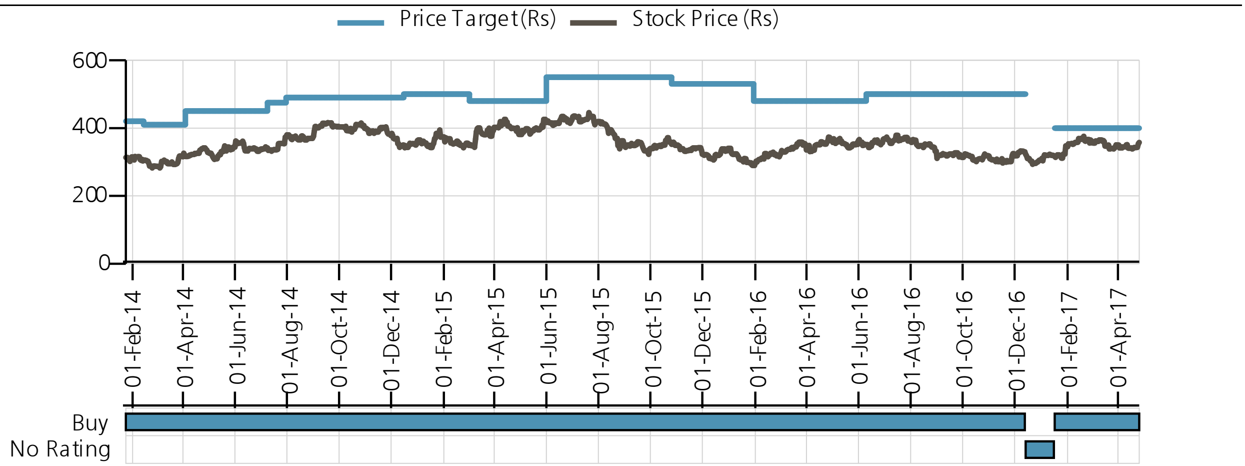
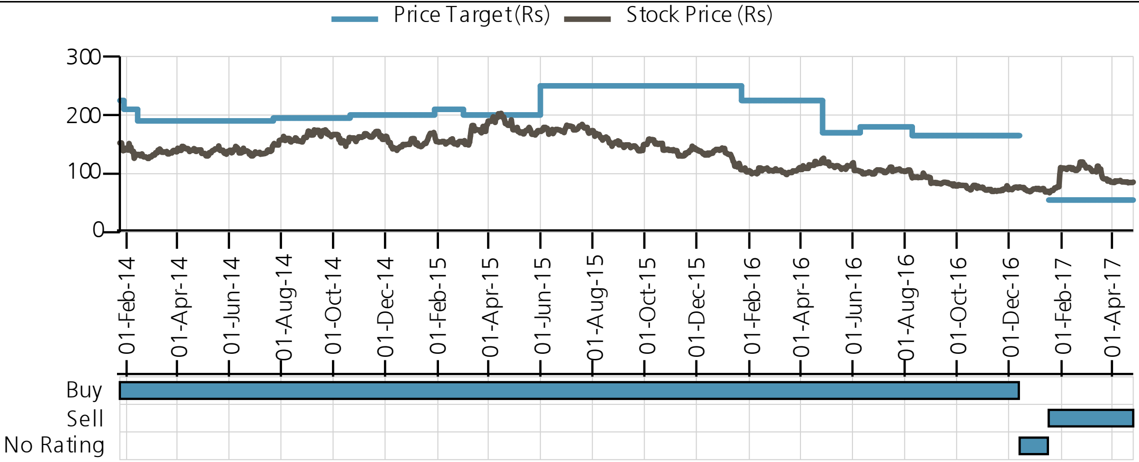
Bharti Airtel Ltd (Rs)



Date	Stock Price (Rs)	Price Target (Rs)	Rating
2014-01-24	313.15	420.0	Buy
2014-02-14	305.4	410.0	Buy
2014-04-04	316.2	450.0	Buy
2014-07-09	341.5	475.0	Buy
2014-07-31	372.9	490.0	Buy
2014-12-16	350.05	500.0	Buy
2015-03-03	349.25	480.0	Buy
2015-06-01	416.6	550.0	Buy
2015-10-26	352.2	530.0	Buy
2016-01-30	289.9	480.0	Buy
2016-06-10	351.1	500.0	Buy
2016-12-14	322.6	-	No Rating
2017-01-17	317.55	400.0	Buy

Source: UBS; as of 26 Apr 2017

Idea Cellular (Rs)



Date	Stock Price (Rs)	Price Target (Rs)	Rating
2014-01-24	152.45	225.0	Buy
2014-01-29	139.9	210.0	Buy
2014-02-14	132.6	190.0	Buy
2014-07-23	149.05	195.0	Buy
2014-10-21	161.45	200.0	Buy
2015-01-28	166.05	210.0	Buy
2015-03-03	154.05	200.0	Buy
2015-06-01	172.55	250.0	Buy
2016-01-23	106.85	225.0	Buy
2016-04-27	125.0	170.0	Buy
2016-06-10	103.5	180.0	Buy
2016-08-10	92.95	165.0	Buy
2016-12-14	77.15	-	No Rating
2017-01-17	69.2	55.0	Sell

Source: UBS; as of 26 Apr 2017

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