

Telecom

Where is the revenue growth???

Telecom Regulatory Authority of India (TRAI) released the 3QFY10 revenue data for service providers, on a circle-wise basis. Key observations are:

- Wireless industry recorded an 11% QoQ volume (subscriber) growth in 3QFY10, which translated to only 1.1% QoQ revenue growth to Rs 265.6 bn. However, adjusted gross revenue (AGR), which reflects the income generated from the core telecom operations (and on which revenue sharing charges are levied), declined 3.3% QoQ to Rs 198 bn. AGR, as a percentage of gross revenue declined to 74.5% in 3QFY10, from 77.8% last quarter, advertising the hard times sector is witnessing.
- Metros and Category A circles were the most impacted ones due to ongoing tariff war. Collectively, they showed a sequential revenue dip of 0.5%, against a combined QoQ revenue growth of 3.2% for Category B and C circles.
- RCOM's wireless revenue reported to TRAI is 20% lower to that reported to the stock exchange. It has come down from 36.4% in 1QFY10 and 21.1% in 2QFY10.
- Among the large operators, revenue share decreased QoQ for Bharti Airtel (-110 bps), BSNL (-50 bps) and Tata Teleservices (-10 bps); increased for Vodafone (+30 bps), Idea (+97 bps) and Aircel (+34 bps) and remained flat for RCOM.
- Tata Teleservices displayed a QoQ subscriber growth of 23%, but its revenue growth was flat during the same period. Clearly, volume growth, based on attractive initial offerings, is not getting converted into a sustained revenue stream.
- **B&K's view:** Undoubtedly, subscriber base is overstated on account of increasing multiple SIM holders. Underlying theme (of high competition) remains worrisome and we rule out any short term recovery for the sector. Falling price points, along with a fragmented usage pattern, will keep the industry's and companies' revenue under pressure. Any meaningful revenue growth can only be possible in a post-consolidation scenario. Our call on the sector remains cautious.

Peer comparison

	CMP (Rs)	M.Cap (Rs mn)	Reco	FY10E			FY11E			Operational-wireless	
				PER (x)	EV/Sales (x)	EV/EBITDA (x)	PER (x)	EV/Sales (x)	EV/EBITDA (x)	EV/Subscriber (Rs/subs)	EV/Subs/ ARPU (mths)
Bharti Airtel	308	1,170,319	OP	13.5	3.0	7.5	15.4	3.0	7.9	6,675	29
RCOM	169	348,197	SELL	8.4	2.6	7.1	13.8	2.5	7.3	3,278	22
Idea Cellular	57	176,390	UP	20.5	1.9	7.2	39.6	2.2	8.8	4,181	21
TTML	24	45,628	UP	NA	4.0	23.4	NA	3.7	20.5	5,627	39

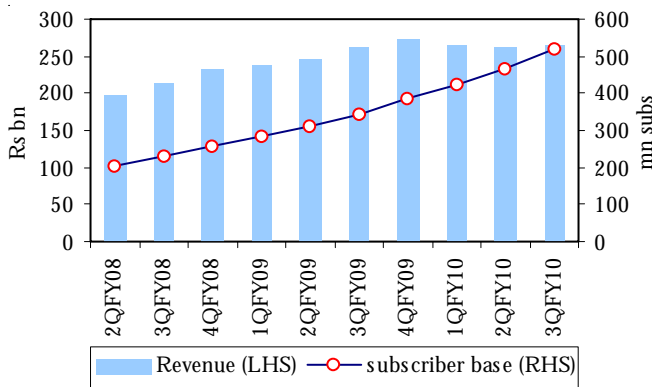
OP – Outperformer, UP – Underperformer.

Industry's wireless revenue growth at 1.1% QoQ and 1.2% YoY

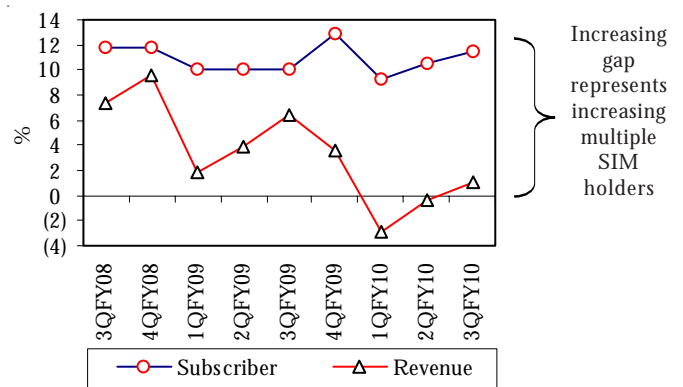
Revenue growth was also supported by an increased usage, as incumbents reduced tariffs to fall in line with market offerings

- **Revenue growth led by seasonal pattern:** We attribute the industry's revenue growth, however small it is, to the fact that third quarter of the financial year is seasonally strong. Usage picks up during the quarter on account of various festivals. Underlying theme (of high competition) remains worrisome and we rule out any short term recovery for the sector. See Appendix I for operators' revenue share movement.
- **Subscriber base inflated:** Growth remains muted, as pricing pressure continues. Also, volume (subscriber) growth of 11% QoQ, for the industry, in 3QFY10 is inflated due to the increasing number of multiple SIM holders, which we believe now form 20-25% of total subscriber base.

Indian wireless: Subscriber base and revenue



Indian wireless: QoQ subscriber and revenue growth



Source: TRAI, B&K Research

- **Sustained pressure on pricing due to new launches:** 3QFY10 saw new launches from Idea (5 circles), Shyam-Sistema (4 circles), Uninor (8 circles) and STel (3 circles). Entire competition is yet to be factored in, with due launches from Aircel (5 circles), Loop Mobile (21 circles), Shyam-Sistema (11 circles), Uninor (14 circles), STel (3 circles), Swan-Etisalat (13 circles) and Datacom (22 circles). Any slowdown in competitive activities is unlikely in near future. Considering CDMA and GSM operations as one for RCOM and for Tata Teleservices, there are 173 existing operations, spread across 22 circles and this count will increase to 262 (an average of 12 operators per circle) once and if the entire competition is factored in. See Appendix II for more details on launched and pending operations. Clearly, any meaningful revenue growth can only be possible in a post-consolidation scenario.
- **Revenue sharing proceeds to Government coming down:** Licence fees and spectrum charges (collectively referred as revenue sharing charges) paid to the Government declined sequentially. Overall (including NLD, ILD, ISP, VSAT and IP-II licences) revenue sharing charges came down by 1.3% QoQ. Dip in contribution from the wireless segment was even higher at 3.2% QoQ, to Rs 25.9 bn.

AGR declined by 3.3% QoQ, against an increase of 1.1% QoQ for gross revenue, thus negatively impacting the revenue sharing proceeds to the Government

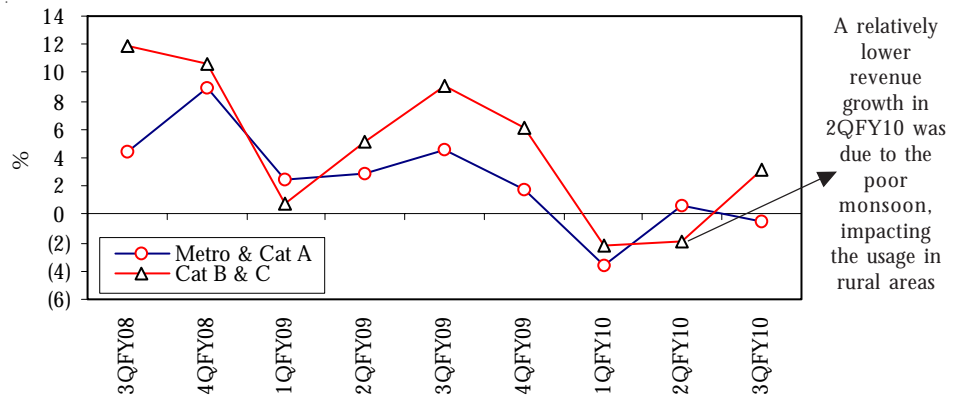
Metros and Category A circles were laggards

- **Category-wise distribution:** As Metros and Category A circles have high ARPU subscribers (8 circles form 57% of India's revenues), they attract high competition.

No wonder, 3QFY10 saw revenue for Metros and Category A circles declining by 0.5%, against a 3.2% QoQ increase in the revenue for Category B&C circles during the same period.

Indian wireless: Category-wise revenue growth

High ARPU-high competition for Metros and Category A circles

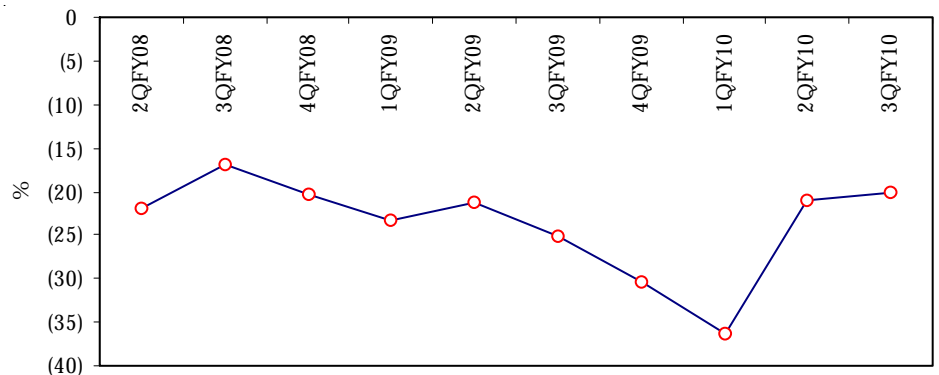


Source: TRAI, B&K Research

RCOM's wireless revenue reported to TRAI

- RCOM's wireless revenue of Rs 32.2 bn, as reported to TRAI, is 20% lower when compared to the wireless revenue reported to the stock exchange. This figure has come down from a high of 36.4% in 1QFY10 and 21.1% in 2QFY10. The similar anomaly is not witnessed for other operators. To explain the difference, the management, in the past, has given reasons like reporting of data revenue under the ISP licence (no revenue sharing charges for ISP licence) and getting exemption under the Government's universal services obligation (USO) scheme for rural subscribers.

Difference in RCOM's revenue reported to TRAI and to stock exchange



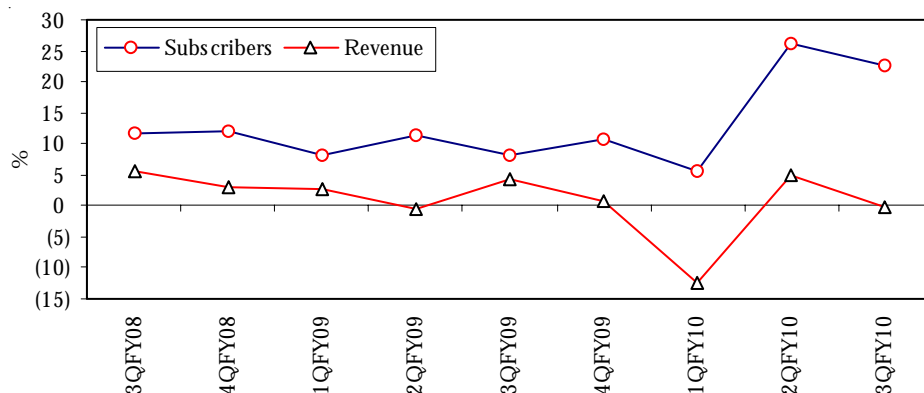
Source: Company reports, TRAI, B&K Research

Tata Teleservices: Losing the steam

Stupendous volume growth failed to increase the revenue

- Tata Teleservices, under the brand name Tata-DoCoMo, launched GSM services in July 2009, using per-second-billing tariff plan. This resulted in strong subscriber addition for the company. Out of the total subscriber base of 57.35 mn that the company has, 20.2 mn or 35% of subscribers are added in the last six months. However, the same has not translated into the revenue growth, indicating the prevalence of multiple SIMs and the challenges that new operators face. Against a volume growth of 22.5% this quarter for the company, revenue declined marginally.

Tata Teleservices: QoQ subscriber and revenue growth



Source: TRAI, B&K Research

- Operators' relative stacking on revenue market share**

Bharti Airtel continued to lead the pack, with revenue share substantially higher than subscriber share.

Revenue and subscriber market share

3QFY10	Revenue share (%)	Subscriber share (%)	Difference (bps)
Operators with revenue share higher than subscriber share			
Bharti Airtel	32.30	22.89	941
Vodafone Essar	20.79	17.60	318
Idea Cellular (including Spice)	12.70	11.10	160
Loop Mobile	0.62	0.51	11
HFCL Infotel	0.12	0.07	6
Operators with revenue share lower than subscriber share			
Reliance Communications	12.11	18.06	(595)
Tata Teleservices	7.37	11.05	(367)
BSNL	9.00	11.02	(202)
Aircel	3.97	5.98	(200)
MTNL	0.64	0.88	(24)
Shyam-Sistema	0.25	0.59	(34)
Uninor	0.03	0.23	(20)
STel	0.00	0.03	(2)

Source: TRAI, B&K Research

Bharti Airtel is the market leader, in terms of revenue share, in 13 circles and is ranked second in 6 circles (see Appendix III for circle-wise ranking of operators)

Appendix I: Wireless revenue and revenue share

(Rs bn)	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10
Bharti	87	89	89	88	86
QoQ (%)	8.5	2.4	0.2	(1.5)	(2.2)
Market share (%)	33.1	32.7	33.8	33.4	32.3
RCOM	33	31	30	32	32
QoQ (%)	(3.5)	(5.1)	(2.6)	3.7	1.7
Market share (%)	12.6	11.5	11.6	12.0	12.1
BSNL	27	29	25	25	24
QoQ (%)	4.4	9.6	(15.6)	0.9	(4.1)
Market share (%)	10.2	10.8	9.4	9.5	9.0
Vodafone	52	55	55	54	55
QoQ (%)	8.7	5.3	(0.6)	(1.6)	2.6
Market share (%)	19.9	20.2	20.7	20.5	20.8
Idea + Spice	30	32	32	31	34
QoQ (%)	13.3	6.5	0.6	(3.8)	9.4
Market share (%)	11.4	11.7	12.1	11.7	12.7
Tata Teleservices	21	21	19	20	20
QoQ (%)	4.4	0.8	(12.5)	4.9	(0.1)
Market share (%)	8.1	7.9	7.1	7.5	7.4
Aircel	8	9	9	10	11
QoQ (%)	7.2	8.9	0.3	6.5	10.5
Market share (%)	3.1	3.3	3.4	3.6	4.0
MTNL	2	2	2	2	2
QoQ (%)	(1.3)	6.9	(6.0)	(4.6)	(15.0)
Market share (%)	0.8	0.8	0.8	0.8	0.6
Others*	2	3	3	3	3
QoQ (%)	0.7	22.8	2.3	(12.4)	12.1
Market share (%)	0.9	1.1	1.2	1.0	1.1
Total	263	272	264	263	266

*Others include Loop Mobile, HFCL Infotel, Shyam-Sistema, Uninor, Swan-Etisalat and STel.

Source: TRAI, B&K Research.

Appendix II: List of launched and pending operations

	Bharti	RCOM	BSNL	Vodafone	Idea	Tata Tele	Aircel	Spice Comm	MTNL	Loop	HFCL	Shyam- Sistema	Uninor	STel	Datacom	Swan Etisalat	Existing	Yet to come	Total
Delhi	Y	Y		Y	Y	Y	Y		Y	N		Y	N		N	N	8	4	12
Mumbai	Y	Y		Y	Y	Y	Y		Y	Y		Y	N		N	N	9	3	12
Kolkata	Y	Y	Y	Y	Y	Y	Y			N		Y	N		N		8	3	11
Maharashtra	Y	Y	Y	Y	Y	Y	Y			N		Y	N		N	N	8	4	12
Gujarat	Y	Y	Y	Y	Y	Y	N			N		N	N		N	N	6	6	12
Andhra Pradesh	Y	Y	Y	Y	Y	Y	Y			N		N	Y		N	N	8	4	12
Karnataka	Y	Y	Y	Y		Y	Y	Y		N		Y	Y		N	N	9	3	12
Tamil Nadu (including Chennai)	Y	Y	Y	Y	Y	Y	Y			N		Y	Y		N	N	9	3	12
Kerala	Y	Y	Y	Y	Y	Y	Y			N		Y	Y		N	N	9	3	12
Punjab	Y	Y	Y	Y		Y	N	Y		N	Y	N	N		N	N	7	6	13
Haryana	Y	Y	Y	Y	Y	Y	N			N		Y	N		N	N	7	5	12
Uttar Pradesh (W)	Y	Y	Y	Y	Y	Y	Y			N		N	Y		N	N	8	4	12
Uttar Pradesh (E)	Y	Y	Y	Y	Y	Y	Y			N		N	Y		N	N	8	4	12
Rajasthan	Y	Y	Y	Y	Y	Y	N			N		Y	N		N	N	7	5	12
Madhya Pradesh	Y	Y	Y	Y	Y	Y	N			N		N	N		N		6	5	11
West Bengal	Y	Y	Y	Y	Y	Y	Y			N		Y	N		N		8	3	11
Himachal Pradesh	Y	Y	Y	Y	Y	Y	Y			N		N	N	Y	N		8	4	12
Bihar	Y	Y	Y	Y	Y	Y	Y			N		Y	Y	Y	N		10	2	12
Orissa	Y	Y	Y	Y	Y	Y	Y			N		N	Y	Y	N		9	3	12
Assam	Y	Y	Y	Y	Y	Y	Y			N		N	N	N	N		7	5	12
North East	Y	Y	Y	Y	Y	Y	Y			N		N	N	N	N		7	5	12
Jammu & Kashmir	Y	Y	Y	Y	Y	Y	Y			N		N	N	N	N		7	5	12
Existing	22	22	20	22	20	22	17	2	2	1	1	11	8	3	-	-	173	89	262
Yet to come	-	-	-	-	-	-	5	-	-	21	-	11	14	3	22	13	89		
Total	22	22	20	22	20	22	22	2	2	22	1	22	22	6	22	13	262		

Y Launched operations N Operations yet to be launched

Appendix III: Circle-wise and operator-wise revenue share

(%)	Bharti	RCOM	BSNL	Vodafone	Idea+Spice	Tata Teleservices	Aircel	MTNL	Others*
Delhi	38.1	13.8		24.0	10.3	8.4	1.3	4.1	0.2
Mumbai	19.6	16.1		30.7	4.8	14.4	1.1	3.7	9.6
Kolkata	29.6	18.0	6.3	31.9	0.6	9.1	4.4		0.1
Maharashtra	21.4	10.0	8.5	19.4	28.5	11.6	0.3		0.2
Gujarat	21.3	10.0	5.6	40.2	18.7	4.0			0.1
Andhra Pradesh	40.2	9.7	10.0	12.4	17.2	9.3	1.0		0.1
Karnataka	51.3	9.4	6.9	15.1	6.8	9.1	0.9		0.5
Tamil Nadu	34.1	8.0	10.1	20.9	0.9	5.0	20.4		0.6
Kerala	19.1	9.6	13.9	21.5	28.5	5.5	1.2		0.7
Punjab	38.8	6.4	11.8	16.8	17.6	5.4			3.3
Haryana	18.8	9.4	18.3	23.2	19.6	10.3			0.4
Uttar Pradesh (W)	18.5	12.6	9.8	22.9	28.3	6.8	1.1		0.1
Uttar Pradesh (E)	28.4	12.7	14.5	30.5	10.0	3.1	0.7		0.1
Rajasthan	45.5	8.8	10.2	23.2	7.2	4.9			0.3
Madhya Pradesh	29.0	21.7	13.0	2.8	27.8	5.6			0.0
West Bengal	27.9	14.1	10.0	36.0	0.4	3.6	6.7		1.4
Himachal Pradesh	43.8	19.6	18.8	3.7	6.6	3.5	3.9		0.1
Bihar	46.2	18.7	8.4	6.8	7.3	6.9	5.5		0.3
Orissa	38.5	18.6	17.7	5.8	2.2	9.2	7.8		0.2
Assam	33.1	19.0	16.2	5.3	0.1	1.4	24.9		0.1
North East	36.5	6.2	20.6	5.8	-	1.3	29.5		0.1
J&K	42.5	4.2	24.4	3.3	0.3	3.3	22.0		0.1

Market leader 2nd position

*Others include Loop Mobile, HFCL Infotel, Shyam-Sistema, Uninor, Swan-Etisalat and STel.
Source: TRAI, B&K Research.

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