

Strong subscriber addition for Bharti, Idea

Muted GSM subscriber growth: Cellular Operators Association of India (COAI) released net subscriber addition numbers for January 2011. Net subscriber addition for GSM operators declined to 13.72mn in January 2011 as compared to 16.9mn subscribers in December 2010. Total number of GSM subscribers in January 2011 stood at 546mn. The main reason for mom drop in subscriber addition was net decrease in subscriber numbers of Videocon by 1.3mn in January 2011 as compared to net subscriber addition of 576k subscribers in December 2010.

Incumbent operators continue strong subscriber addition: Bharti continued to march ahead of its competitors with highest number of subscriber additions at 3.3mn as compared to 3.1mn in December 2010. Its India subscriber base as on January 2011 was 155.8mn. Idea added 2.51mn subscribers in January 2011 as compared to 2.95mn subscribers in December 2010, taking its total subscriber base to 84.29mn. Vodafone added 3.11mn subscribers in January 2011 as compared to 3.09mn in December 2010. BSNL's net subscriber addition dropped to 2.2mn subscribers in January 2011 from 2.98mn subscribers in December 2010 (refer Exhibit 1).

Subscriber growth for new operators tapering off: Uninor added 1.8mn subscribers in January 2011 as compared to 2.31mn subscribers added in December 2010. Subscriber additions for other GSM operators like Loop, STel and Etisalat have been marginal - less than 500k per month. Videocon posted a net decrease of 1.5mn subscribers in January 2011 as compared to net subscriber addition of 576k subscribers in December 2010. Tamil Nadu, Haryana, Mumbai and Kerala circles, reported significant fall in mom subscriber additions and dragged down overall figures. However, we believe the drop in subscriber count for Videocon may be an aberration, if not an error. Details of subscribers added in January 2011 by other operators like RCOM and TTSL are awaited.

Valuation and outlook: We maintain positive outlook on Bharti and Idea based on (1) abatement of price war, (2) limited impact from MNP, (3) 3G services launch, and (4) restructuring of Africa business for Bharti and improving performance in new circles for Idea. Bharti trades at 7.2x FY12E EV/EBITDA and P/E of 14.3x FY12E. Maintain Buy with target price of Rs380. Idea trades at 6.9x FY12 EV/EBITDA and P/E of 19.6x FY12E. Maintain Buy with target price of Rs90.

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Peer valuation

(Rs mn)

Company	CMP (Rs)	Net sales			Net profit			EV/EBIDTA(X)		P/E (X)		Rating
		FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E	
Bharti Airtel	331	594,718	713,247	821,661	65,010	88,006	129,560	8.8	7.2	19.4	14.3	BUY
Idea Cellular	64	155,095	187,302	216,509	8,958	10,862	13,170	8.5	6.9	23.8	19.6	BUY

Source: Companies, BRICS Research

Exhibit 1: Monthly subscriber addition for select mobile operators ('000)

Operator	Nov 2010	Dec 2010	Jan 2011	Total subscribers
Bharti	3,101	3,101	3,301	155,797
Vodafone	3,125	3,092	3,109	127,364
BSNL	2,990	2,979	2,203	88,912
Idea	2,802	2,953	2,511	84,290
Aircel	1,219	1,430	1,663	51,832
Uninor	2,450	2,312	1,796	20,306
Videocon	1,128	576	-1,308	6,011
MTNL	35	20	38	5,435
Loop	19	16	18	3,062
STel	201	247	199	2,515
Etisalat	61	133	188	453
Grand total	17,132	16,859	13,717	545,976

Source: TRAI, COAI, BRICS Research

BRICS RECOMMENDATION SCALE

BUY: Absolute return of $> +15\%$

SELL: Absolute return of $< -15\%$

HOLD: Absolute return of -15% to $+15\%$

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