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India Telecoms

TeleScan – Vol. 1/09

- Key themes:** In the first TeleScan of 2009, we cover 3G spectrum auctions, RCOM's GSM package and the Tata-Quippo tower deal.
- Further delay in 3G auctions.** DoT has sent a revised policy note to Cabinet Committee (CCEA), which includes finance ministry's suggestion to double the 3G reserve price to Rs40.4bn for pan India spectrum. However, CCEA approval is still pending, suggesting further delay beyond Jan 30. We view a prolonged delay in 3G auctions as positive for RCOM/Idea and neutral for Bharti.
- RCOM's GSM expansion; no tariff war yet.** RCOM is offering a SIM card that includes free talktime of Rs5-10 per day (for first 90 days) for only Rs25. We estimate RCOM would incur a cash loss of Rs250/sub (IUC, SAC) over a 3-month period. Other operators will likely see some softness in their MOUs/ARPU's, as their 'paid' minutes become RCOM's 'free' minutes. For every 5m subs added by RCOM, we estimate a 1% impact on the wireless revenues of Bharti, VOD and Idea.
- Tate Tele, Quippo in tower deal.** Media reports (ET, 6th Jan) quoting Quippo MD say that, Quippo will pay Rs24bn cash to the Tata Group and inject its 5,000 towers into WTTI (TTSL's tower subsidiary); WTTI has 13,000 towers currently (excl. 1,300 owned by TTML). Quippo will have 49% stake in WTTI (18,000 towers post deal) plus management control. Based on Rs27.5bn net debt in WTTI, we estimate EV/tower of Rs7.2m, similar to valuation in Spice-Quippo deal in Sep '07. Post completion of the deal, WTTI is likely to emerge as the third major force in the Indian tower space, behind Bharti Infratel/Indus Towers and Reliance.

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Absolute price performance (%) [a]

	1m	3m	6m	12m
Bharti	(14.8)	(13.1)	(13.2)	(26.7)
RCOM	(21.8)	(29.4)	(54.3)	(75.0)
Idea	(21.9)	(34.9)	(42.5)	(69.2)
Sensex	(6.5)	(11.9)	(25.9)	(53.1)

Price performance relative to Sensex (%)

	1m	3m	6m	12m
Bharti	(8.2)	(1.2)	12.7	26.4
RCOM	(15.3)	(17.5)	(28.4)	(22.0)
Idea	(15.3)	(23.0)	(16.6)	(16.1)

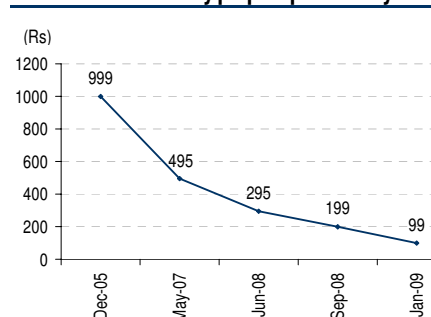
Source: Bloomberg [a] Based on Jan 16, '09 share prices

Recent tower deals in the Indian wireless market

Timing	Transaction	EV (US\$m)	Est Towers ('000)	EV/tower (Rsm)
Aug-07	RCOM completes 5% equity private placement in Reliance Infratel (RITL)	6,930	23,434	11.7
Sep-07	Proposed sale of entire passive telecom infrastructure by Spice to Quippo (a SREI group company)	152	875	6.9
Dec-07	Leading international investors pick up stake worth US\$1 billion in Bharti Infratel	11,250	49,400	9.0
Jan-09	Quippo, Tata Tele merge their tower businesses; Quippo pays Rs24bn to Tata Group and injects 5000 towers into WTTI	2,680	18,000	7.2
	Average			8.7

Source: Bloomberg, Anand Rathi Research

Price of lifetime validity prepaid pack over years



Source: Company websites, Media reports

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Competition

RCOM launches GSM services in new circles

We believe RCOM's promotional offer is not sustainable and need not be responded to by GSM incumbents in a major way (see our note dated 5 Jan '09)

In the first week of Jan '09, Reliance Communications (RCOM) launched GSM operations in its 14 additional circles. Under a special limited period offer called 'Customer Experience Programme' (CEP), SIM cards /connections are being sold Rs25. These connections are valid for six-months (incoming allowed) and have bundled talktime (for local calls and SMS) of Rs10 per day (Rs5/day in the five southern circles) for the first 90 days. For making any NLD calls or local calls (beyond Rs10 per day), top-up (recharge) vouchers are required that have tariffs of Rs1/min for local and Rs1.5/min for NLD. Besides, on-net calls at night would be free. The company said it added 100,000 subscribers to its GSM services in Mumbai on the first day itself. Furthermore, Industry sources indicate that the overall figure across 14 circles has crossed 1 mn in the first 10 days of launch. (*The Hindu Business Line, 4 Jan '09/RCOM website*)

Bharti launches lifetime prepaid at Rs99

We estimate the impact on Bharti's EPS to be about 1%, but this has already been factored into our FY10 earnings forecasts (see our note dated 12 Jan '09)

Bharti Airtel lowered the price of its lifetime validity prepaid pack to Rs99 (one-time upfront payment), from Rs199-299. A lifetime validity pack allows subscribers to receive calls for 10-12 years (i.e. over the remaining period of license) on condition that they spend Rs200 every six months on recharge vouchers.

Idea launched a 'promotional' lifetime prepaid plan in Mumbai, in which, on recharge of Rs25 (a starter kit of Rs99 to be bought separately) one can make local/NLD calls at Rs0.6/Rs1.0 per min for six months

The lifetime validity product was introduced by various service providers in India in Oct-Dec '06 at Rs995-999. In May '07, the price was reduced to ~Rs495 and over the past six to nine months gradually to Rs195-199. (*The Hindu Business Line, 13 Jan '09*)

Unitech gets spectrum in West Bengal

Unitech Wireless, the telecom arm of real estate major Unitech, has received 4.4 MHz of spectrum in the 1800-MHz band in the West Bengal circle. With this, the company has been allotted initial spectrum in all circles except Delhi. (*The Economic Times, 12 Jan '09*)

3G updates

DoT open to higher 3G base price; sticks to limiting number of blocks

The Cabinet Committee did not take up the 3G issue in its last two meetings, on 8 Jan and 15 Jan. It is likely to meet on Jan 22 and then again on Jan 29.

The Department of Telecommunications (DoT) has proposed three options to Cabinet Committee on Economic Affairs (CCEA) regarding reserve price for 3G spectrum – leaving it unchanged, doubling it to Rs40.4bn (for pan-India spectrum) or setting it at Rs35.4bn. The last option (Rs35.4bn) is derived by increasing the reserve prices in metro and category 'A' circles by two times and in category 'B' circles by one-and-half times, while keeping reserve for category 'C' circles unchanged.

Last week, the DoT had postponed the 3G auction date from 30 Jan, without giving new dates.

On the issue of number of blocks to be auctioned, DoT has stuck to its earlier decision of limiting it to four per circle (five, including one reserved for MTNL/BSNL) even in circles where more blocks are available. The differences/deliberations among members of the CCEA over these and other issues (to scrap TRAI's proposal for a 3G-spectrum 'admin charge') has resulted in the delay in 3G spectrum auctions. (*The Hindu Business Line, 14 Jan '09*)

The number of 3G spectrum blocks to be auctioned is the main contentious issue, on which the CCEA has to take a final call

Court seeks DoT's stand on 3G spectrum blocks to be auctioned

The Delhi High Court directed DoT to file, by Jan 21, an affidavit explaining why it cannot auction all the available blocks of spectrum in the upcoming auction of 3G spectrum. The court is hearing a Public Interest Litigation (PIL) filed last month by an NGO, Society for Awareness and Development. The NGO alleged that DoT, contrary to TRAI's recommendation, has restricted the auctions to five blocks in order to benefit some companies. (*Business Standard*, 15 Jan '09)

CDMA-based 3G services limited to existing CDMA companies

Such a decision may be taken as only two blocks of the spectrum are available with the DoT and, as per a government official the spectrum would best be utilized by an existing CDMA operator.

It is believed that, in case all the three CDMA operators (RCOM, TTSL, Shyam-Sistema) evince interest in the said spectrum, there might be a limited auction and or else spectrum may be allocated to those interested at one-fourth the price of the winning bid for GSM-based 3G spectrum (2100 MHz band). DoT will allocate 5 MHz of GSM-based 3G spectrum and 1.25 MHz of CDMA-based 3G spectrum. (*The Hindu Business Line*, 4 Jan '09)

Regulatory updates

TRAI floats consultation paper on promoter equity lock-in

In its final recommendations, TRAI may endorse the DoT proposal to permit stake dilution by promoters, through 'issue of fresh equity' in our view

TRAI has floated a consultation paper on DoT's proposal to impose a lock-in period on the stake sale by promoters of new telecom licensee-companies. DoT had proposed a lock-in period after it faced criticism for new licensees, who were awarded spectrum at a fixed fee, selling stakes in their companies at higher valuations. The DoT felt that any shareholder having >10% in a new licensee company, should not be allowed to sell the shares for a period of 3-years. However, DoT felt that the company can issue new shares to raise funding (the cash raised can't be distributed as special dividend though). The TRAI has asked stakeholders to submit their views by Jan 20. (*Economic Times*, 10 Jan '09/*TRAI consultation paper*, 9 Jan '09)

Delay in MNP tender process

DoT has postponed issuing clarification to prospective bidders' queries on mobile number portability (MNP) by a month, to Jan 22. Accordingly, the schedule of later events in the tender process for issue of MNP licenses will be delayed and notified by DoT. The earlier schedule had envisaged announcement of successful bidders by the first week of Feb '09. (*The Economic Times* 6 Jan '09/*The Financial Express*, 9 Jan '09)

Other news flow

Bharti launches mobile services in Sri Lanka

Bharti launched mobile services in Sri Lanka. It will compete with four existing players including the Telekom Malaysia-owned Dialog Telecom, which has a ~50% subscriber market share. Sri Lanka at present has ~10m mobile subscribers, implying ~50% mobile penetration. Bharti will invest about US\$200m for its network rollout in Sri Lanka. (*The Economic Times*, 12 Jan '09)

Indus Towers to raise US\$500m debt

Indus Towers, a JV of the three telcos, Bharti, Vodafone Essar and Idea, plans to raise US\$500m in debt for expansion. According to investment banking sources, it has postponed its proposed IPO by the end of this fiscal and this has prompted it to raise debt. The company has been in the market for a few days now, doing road shows for investors, the sources said. (*Financial Chronicle, 11 Jan '09*)

Tata Comm seeks government nod to raise funds

As per press reports, Tata Communications (TCOM) has approached the government, a 26% shareholder, for a nod to raise Rs10bn through a rights issue and another Rs20bn through debt. In a note to the government, TCOM said it needs funds for acquisitions, capex and to bid for broadband wireless access (BWA) spectrum.

The internal note also said that the TCOM's Board has decided to go ahead with the sale of a part of its 15.01% holding in Tata Tele, to NTT-DoCoMo. The transaction is expected to yield about Rs4.3bn (Rs1.5 per share of TCOM). (*The Hindu Business Line, 12 Jan '09*)

Appendix 1

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Mid/Small Caps (<US\$2bn)	>30%	10-30%	<10%

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