

# Telecom Sector Update

*Cabinet decides on levy of one-time fee for excess spectrum*

The Cabinet approved decisions on spectrum pricing and sharing. Below are key highlights

- No one-time charge to be levied for spectrum holding upto 4.4MHz (GSM)
- Operators will need to pay for excess spectrum for the remainder period of their licenses from Jan 2013. The price levied would be auction determined.
- *For spectrum held over 6.2MHz, the one-time charge will be levied from July 2008 onwards. There will be two prices (1) the price, pro-rated for the period from July 2008 to Dec 2012, at 2001 entry fee divided by 6.2, indexed using State Bank of India Prime Lending Rate (SBI-PLR), (2) levy of auction determined price from Jan 2013 to the period of expiry of license*
- Operators will have an option to surrender excess spectrum, if they don't wish to pay this charge.
- Apart from the option of paying the entire amount upfront, the licensees will be allowed equated annual installments for the balance number of years of license (such that the last installment is payable not later than 12 calendar months prior to expiry of the license) considering interest rate @ 9.75% as approved by the Ministry of Finance in the case of new successful bidders for deferred payment.
- Sharing of spectrum, without additional one-time spectrum charge, will be permitted between operators that have both paid for spectrum beyond 4.4MHz (GSM). Both operators would have to pay spectrum usage charge on the entire combined spectrum holding. In cases of transferees holding spectrum against the entry fee paid, the acquiring company will have to reimburse to the govt. the differential between the entry fee and the current auction determined price, on a pro-rate basis over the remaining period of validity of the license.
- Decision regarding charging of CDMA spectrum holdings beyond 2.5MHz will be taken separately.
- The one-time fee levy works out to Rs 51bn for Bharti Airtel, Rs 33bn for Vodafone, Rs 23bn for Idea Cellular and Rs 39bn for Reliance Communications. This translates to per share impacts of Rs 13.4, Rs 6.9 and Rs 14.9 for Bharti, Idea and RCom respectively. Our assumptions are as under:
  - In accordance with TRAI's assumptions, we have taken SBI PLR at 11% per annum. Hence the July 2008 price of spectrum is Rs 5.8bn/MHz and Rs 11.6bn/MHz (2x) in the 1800MHz and 900MHz bands.
  - We have assumed that the initial block of 4.4MHz for which the 2001 rate entry fee has been paid is 1800MHz. Hence, our excess spectrum computation sets off the 4.4/6.2 MHz limit first from 1800 MHz band and from 900 MHz later, where there are multiple bands
  - For prospective payout computation, we have assumed the 1800MHz spectrum auction reserve price and for 900MHz spectrum the same is 2x the 1800MHz reserve price.
- We maintain that the adverse regulatory environment overshadows potential operating performance improvements of telcos. Hence our SELL stance on the sector.

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## Excess spectrum (in MHz) – assuming the initial 4.4MHz of spectrum is in 1800MHz band

Circle	Bharti Airtel		Vodafone		Idea Cellular		Rcom		
	900 MHz	1800 MHz	900 MHz	1800 MHz	900 MHz	1800 MHz	900 MHz	1800 MHz	800 MHz
Delhi	5.6	-	5.6	-	-	3.6	-	-	2.5
Mumbai	-	4.8	5.6	-	-	-	-	-	2.5
Kolkata	3.6	-	5.4	-	-	-	-	1.8	2.5
Maharashtra	-	3.8	1.8	-	5.4	-	-	-	2.5
Gujarat	-	1.8	5.4	-	1.8	-	-	-	1.3
AP	5.6	-	-	1.8	3.6	-	-	-	2.5
Karnataka	5.6	-	-	3.6	1.8	-	-	-	2.5
Tamil Nadu	4.8	-	2.8	-	-	-	-	-	2.5
Kerala	-	1.8	1.8	-	3.6	-	-	-	2.5
Punjab	3.4	-	-	1.8	3.4	-	-	-	1.3
Haryana	-	1.8	1.8	-	1.8	-	-	-	1.3
UP - West	-	1.8	1.8	-	3.6	-	-	-	2.5
UP - East	2.8	-	3.8	-	-	1.8	-	-	2.5
Rajasthan	3.8	-	1.8	-	-	1.8	-	-	1.3
M.P.	-	3.6	-	-	3.6	-	1.8	-	2.5
West Bengal	1.8	-	1.8	-	-	-	1.8	-	1.3
H.P.	1.8	-	-	-	-	-	1.8	-	-
Bihar	4.8	-	-	-	-	-	3.6	-	2.5
Orissa	3.6	-	-	-	-	-	1.8	-	1.3
Assam	1.8	-	-	-	-	-	1.8	-	-
North East	1.8	-	-	-	-	-	1.8	-	-
J&K	1.8	-	-	-	-	-	-	-	-

Source: TRAI, PhillipCapital India Research

## Period remaining of license (in years, from Jan 2013)

Circle	Bharti Airtel		Vodafone		Idea Cellular		Rcom		
	900 MHz	1800 MHz	900 MHz	1800 MHz	900 MHz	1800 MHz	900 MHz	1800 MHz	800 MHz
Delhi	1.9	1.9	1.9	1.9	8.8	8.8	15.1	15.1	8.9
Mumbai	8.7	8.7	1.9	1.9	13.9	13.9	15.1	15.1	8.9
Kolkata	1.9	1.9	1.9	1.9	15.1	15.1	8.7	8.7	8.9
Maharashtra	8.7	8.7	3.0	3.0	2.9	2.9	15.1	15.1	8.9
Gujarat	8.7	8.7	3.0	3.0	2.9	2.9	15.1	15.1	8.9
AP	2.9	2.9	8.7	8.7	3.0	3.0	15.1	15.1	8.9
Karnataka	3.1	3.1	8.7	8.7	3.3	3.3	15.1	15.1	8.9
Tamil Nadu	8.7	8.7	2.9	2.9	15.1	15.1	15.1	15.1	8.9
Kerala	8.7	8.7	2.9	2.9	2.9	2.9	15.1	15.1	8.9
Punjab	2.9	2.9	8.8	8.8	3.3	3.3	15.1	15.1	8.9
Haryana	8.7	8.7	2.9	2.9	2.9	2.9	15.1	15.1	8.9
UP - West	8.7	8.7	11.1	11.1	2.9	2.9	15.1	15.1	8.9
UP - East	11.1	11.1	2.9	2.9	8.8	8.8	15.1	15.1	8.9
Rajasthan	3.3	3.3	2.9	2.9	8.8	8.8	15.1	15.1	8.9
M.P.	8.7	8.7	14.2	14.2	2.9	2.9	2.9	2.9	8.9
West Bengal	11.1	11.1	11.2	11.2	15.1	15.1	2.9	2.9	8.9
H.P.	2.9	2.9	13.9	13.9	8.8	8.8	2.9	2.9	8.9
Bihar	11.1	11.1	13.9	13.9	13.9	13.9	2.9	2.9	8.9
Orissa	11.1	11.1	13.9	13.9	15.1	15.1	2.9	2.9	8.9
Assam	11.5	11.5	13.9	13.9	15.1	15.1	2.9	2.9	8.9
North East	2.9	2.9	13.9	13.9	15.1	15.1	2.9	2.9	8.9
J&K	11.1	11.1	13.9	13.9	15.1	15.1	15.1	15.1	8.9

Source: TRAI, PhillipCapital India Research

## Levy of one-time fee

Circle (Rs mn)	Price/MHz		Bharti Airtel		Vodafone		Idea Cellular		RCom	
	(900MHz)	(1800MHz)	900 MHz	1800 MHz & retro.	900 MHz	1800 MHz & retro.	900 MHz	1800 MHz & retro.	900 MHz	1800 MHz & retro.
Delhi	5,887	1,019	5,887	1,019	-	8,975	-	-	5,887	1,019
Mumbai	-	11,374	5,763	1,219	-	-	-	-	-	11,374
Kolkata	621	-	931	442	-	-	-	825	621	-
Maharashtra	-	3,488	1,117	-	3,328	1,071	-	-	-	3,488
Gujarat	-	1,413	2,866	618	949	-	-	-	-	1,413
AP	3,768	-	-	1,804	2,438	291	-	-	3,768	-
Karnataka	4,599	-	-	4,441	1,549	-	-	-	4,599	-
Tamil Nadu	10,263	-	2,010	367	-	-	-	-	10,263	-
Kerala	-	411	276	-	551	114	-	-	-	411
Punjab	536	-	-	639	596	382	-	-	536	-
Haryana	-	292	196	-	196	-	-	-	-	292
UP - West	-	675	1,718	-	907	86	-	-	-	675
UP - East	1,894	-	679	142	-	480	-	-	1,894	-
Rajasthan	672	-	283	91	-	423	-	-	672	-
M.P.	-	679	-	-	456	49	228	49	-	679
West Bengal	413	-	417	-	-	-	109	4	413	-
H.P.	33	-	-	-	-	-	33	4	33	-
Bihar	1,812	-	-	-	-	-	359	56	1,812	-
Orissa	648	-	-	-	-	-	86	14	648	-
Assam	144	-	-	-	-	-	37	14	144	-
North East	37	-	-	-	-	-	37	5	37	-
J&K	101	-	-	-	-	-	-	-	101	-
TOTAL	50,780		32,926		22,842		39,461		50,780	
Per share impact	13.4				6.9		14.9		13.4	

Source: TRAI, PhillipCapital India Research

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