



TELECOM

Spectrum auction – A damp squib

India Equity Research | Telecom



As expected Day 1 of the spectrum auction turned out to be a dampener as just 98 blocks (of 1.25MHz each) out of 176 blocks received bids with the total auction amount garnered being INR92.2bn. Delhi, Mumbai and Karnataka which formed ~49% of the total reserve price did not receive any bid, while Rajasthan too did not receive any participation. Only two circles UP (East) and UP (West) received excess bid (over 8 blocks) hence will be allotted at higher price than the reserve price. Remaining 16 circles have been bid at their reserve price.

Key highlights of Day 1 of 2G Spectrum auction:

- 98 blocks (55% of the total 176 blocks), spread across 18 circles, have been bid for. No company has applied for a pan-India license in the 2G auction.
- No bid received for Delhi, Mumbai and Karnataka (which form ~49% of the total reserve price. Rajasthan too did not receive any bids.
- The total auction amount comes to INR92.2bn.
- Price determined for 18 circles of 22 circles.
- Nine blocks for Uttar Pradesh (East), ten for UP (West), eight each for Gujarat and Bihar, seven in Assam, six each in West Bengal, Haryana, Orissa, J&K, Madhya Pradesh and North-East, five in Maharashtra, four each in Andhra Pradesh, Kolkata and Tamil Nadu, and one each in Himachal Pradesh, Kerala and Punjab received bid during the day.
- The auction will continue on 15th November, for the remaining circles.

Our View: Spectrum auction – A damp squib

We have been maintaining a stance that 2G auctions will not receive huge participation as the price of INR140bn for 5Mhz is on the higher side and the same has been played out on Day 1 of the auction. That key circles (Delhi, Mumbai and Karnataka) have failed to receive any bids is an indication of the poor response from bidders. Only two circles viz. UP (East) and UP (West) will be allotted at higher than the reserve price. We had calculated the impact of one time spectrum charges for Bharti to be INR48bn, (INR13/share) vs. our earlier estimate of INR17/share (refer our note: EdelFlash - Telecom - One-time spectrum fee gets Cabinet nod, dated 8th November, 2012). Further, we have calculated the spectrum license renewal for Bharti based on the new provisional prices for 18 circles and have assumed the 2G reserve price for Delhi, Mumbai, Karnataka and Rajasthan which comes to INR50/ share vs which is lower by INR30/share than our earlier estimate of INR80/share.

Sandip Agarwal

+91 22 6623 3474

sandip.agarwal@edelweissfin.com

Omkar Hadkar

+91 22 6620 3147

omkar.hadkar@edelweissfin.com

November 12, 2012

Edelweiss Securities Limited, Edelweiss House, off C.S.T. Road, Kalina, Mumbai – 400 098.
Board: (91-22) 4009 4400, Email: research@edelcap.com

Vikas Khemani	Head Institutional Equities	vikas.khemani@edelweissfin.com	+91 22 2286 4206
Nischal Maheshwari	Co-Head Institutional Equities & Head Research	nischal.maheshwari@edelweissfin.com	+91 22 4063 5476
Nirav Sheth	Head Sales	nirav.sheth@edelweissfin.com	+91 22 4040 7499

Access the entire repository of Edelweiss Research on www.edelresearch.com

DISCLAIMER

General Disclaimer:

This document has been prepared by Edelweiss Securities Limited (Edelweiss). Edelweiss, its holding company and associate companies are a full service, integrated investment banking, portfolio management and brokerage group. Our research analysts and sales persons provide important input into our investment banking activities. This document does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. Edelweiss or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. The investment discussed or views expressed may not be suitable for all investors. We and our affiliates, group companies, officers, directors, and employees may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as advisor or lender/borrower to such company (ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Edelweiss and affiliates/ group companies to any registration or licensing requirements within such jurisdiction. The distribution of this document in certain jurisdictions may be restricted by law, and persons in whose possession this document comes, should inform themselves about and observe, any such restrictions. The information given in this document is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. Edelweiss reserves the right to make modifications and alterations to this statement as may be required from time to time. However, Edelweiss is under no obligation to update or keep the information current. Nevertheless, Edelweiss is committed to providing independent and transparent recommendation to its client and would be happy to provide any information in response to specific client queries. Neither Edelweiss nor any of its affiliates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. Past performance is not necessarily a guide to future performance. The disclosures of interest statements incorporated in this document are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. Edelweiss Securities Limited generally prohibits its analysts, persons reporting to analysts and their dependents from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. The information provided in these documents remains, unless otherwise stated, the copyright of Edelweiss. All layout, design, original artwork, concepts and other Intellectual Properties, remains the property and copyright Edelweiss and may not be used in any form or for any purpose whatsoever by any party without the express written permission of the copyright holders. Edelweiss might be engaged or may seek to do business with companies covered in its research. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should take informed decision and use this document for assistance only and must not alone be taken as the basis for their investment decision.

Analyst Certification:

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Analyst holding in the stock: No.

Additional Disclaimer for U.S. Persons

This research report is a product of Edelweiss Securities Limited, which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Edelweiss Securities Limited only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Edelweiss Securities Limited has entered into an agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo"). Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer.

Copyright 2009 Edelweiss Research (Edelweiss Securities Ltd). All rights reserved