

Telecoms, Media & Technology
 Diversified Telecoms
 Equity – India

Indian Telecoms

3G Auctions: Day 3 Update

- ▶ **Pan-India collections at cUSD3.9bn at the end of Day 3**
- ▶ **Effective pan-India operators decrease to 3.8; activity level remains at 80% in our view**
- ▶ **Delhi and Gujarat witness highest bids**

The DoT overall completed 16 rounds of 3G auctions at the end of Day 3. The price at the end of Day 3 increased c6% to USD3.93bn as compared to USD3.71bn on Day 2. This price (USD3.93bn) is c24% higher than the reserve price of USD3.18bn and c46% lower compared to our fair value of USD7.5bn.

Per our analysis, c3.8 operators remain in contention for pan-India bidding, as compared to seven players at the start of the auctions. As per our computation, the total points carried forward by all the telecom operators to Round 17 (on Day 4) is 1,346, which means 1,095 eligibility points have been lost, out of the initial 2,441 due to lower bidding by the operators.

Delhi and Gujarat witnessed the highest bids on Day 3 of the 3G auctions with the bid amount closing at USD93m each, which is c30% higher than the reserve price. Gujarat, with the total demand of five, was higher than Delhi with total demand of four. Separately, Rajasthan stands with the highest increase of 33% over the reserve price followed by U.P. (East) with a 31% increase. U.P. (East) is the only circle to witness a demand from six operators since the inception of the auctions. Nine circles, including all the C-circles, witnessed negative demand from operators.

We estimate fair value for pan-India 3G spectrum at cUSD7.5bn, using a bottom up approach and a hurdle rate of 11%. In our view, a higher-than-estimated payout by operators will be significantly negative for the sector.

13 April 2010

Rajiv Sharma *

Analyst
 HSBC Securities and Capital Markets
 (India) Private Limited
 +9122 2268 1239
 rajivsharma@hsbc.co.in

Tucker Grinnan *

Regional Head of Telecoms Research
 The Hongkong and Shanghai Banking
 Corporation Limited
 +852 2822 4686
 tuckergrinnan@hsbc.com.hk

Harbhajan Singh *

Associate
 Bangalore

View HSBC Global Research at:
<http://www.research.hsbc.com>

*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/qualified pursuant to NYSE and/or NASD regulations

Issuer of report: HSBC Securities and
 Capital Markets
 (India) Private Limited

Disclaimer & Disclosures

This report must be read with the disclosures and the analyst certifications in the Disclosure appendix, and with the Disclaimer, which forms part of it

Table 1: Estimates of 3G players still in hunt

Particulars	Day 3	Day2	Day 1	Day 3 vs Day 2	Day 3 vs Day 1
Aggregate Initial points assigned to all operators	2,441	2,441	2,441		
Initial implied Pan-India players	7	7	7		
Total eligibility points	1,207	1,103	1,153	9%	5%
Points carried forward for next round	1,346	1,379	1,441	-2%	-7%
Points lost by the operators	1,095	1,062	1,000	33	95
Implied Pan-India players	3.8	3.9	4.1		
Reserve Points that can be reintroduced	269	276	288	-2%	-7%
Total points for telcos after introduction of reserve points	1,616	1,655	1,730	-39	-114
Implied operators if reserve points are introduced	4.6	4.7	4.9		

Source: HSBC Estimates

Table 2: 3G progress Day 3

Circles	Category	Reserve price (USDm)	HSBC's Estimates (USDm)	Actual bid price Day 3 (USDm)	Actual multiple to bid price (Day 3)	Actual bid price Day 2 (USDm)	Actual multiple to bid price (Day 2)	Price increase (Day 3 vs Day 2)	Aggregate Demand Day 3	Excess Demand Day 3
Andhra Pradesh	A	71	178	90	1.26x	85	1.19x	6.1%	3	0
Gujarat	A	71	124	93	1.30x	84	1.18x	10.4%	5	2
Karnataka	A	71	249	88	1.24x	84	1.18x	5.1%	3	0
Maharashtra	A	71	249	90	1.26x	85	1.19x	6.1%	3	0
Tamil Nadu	A	71	249	90	1.26x	85	1.19x	6.1%	4	1
Haryana	B	27	27	31	1.18x	31	1.14x	3.0%	2	-1
Kerala	B	27	27	33	1.25x	31	1.18x	6.1%	4	1
Madhya Pradesh	B	27	27	33	1.24x	31	1.17x	6.1%	3	0
Punjab	B	27	27	28	1.04x	27	1.03x	1.0%	3	-1
Rajasthan	B	27	35	35	1.33x	32	1.20x	10.3%	5	2
U.P. (East)	B	27	27	35	1.31x	32	1.19x	10.3%	6	3
U.P. (West)	B	27	27	34	1.26x	32	1.19x	6.1%	4	1
West Bengal	B	27	27	28	1.04x	27	1.02x	2.0%	0	-4
Assam	C	7	7	7	1.01x	7	1.01x	0.0%	0	-3
Bihar	C	7	7	7	1.06x	7	1.06x	0.0%	3	-1
Himachal Pradesh	C	7	7	7	1.01x	7	1.01x	0.0%	1	-3
J&K	C	7	7	7	1.01x	7	1.01x	0.0%	0	-4
North East	C	7	7	7	1.01x	7	1.01x	0.0%	1	-2
Orissa	C	7	7	7	1.01x	7	1.01x	0.0%	0	-3
Delhi	Metro	71	213	93	1.30x	87	1.23x	6.1%	4	1
Kolkata	Metro	27	36	34	1.26x	32	1.19x	6.1%	3	0
Mumbai	Metro	71	249	87	1.23x	84	1.18x	4.1%	4	1
Total		778	1,808	962	1.24x	909	1.17x	5.9%		

Source: DoT, HSBC

HSBC Global Research website

To maximise your access to HSBC Global Research please visit our website at www.research.hsbc.com where you can:

- ▶ View the latest research and access archived reports
- ▶ Visit the dedicated product pages, including Emerging Markets and Climate Change
- ▶ Filter estimates for more than 1,000 companies under equity coverage
- ▶ Set up personal filters to put your research interests at your fingertips
- ▶ Look up HSBC research analyst contact details



E-mail subscriptions

You can receive research directly via e-mail as soon as it is published. To set up subscriptions to research reports, contact your Relationship Manager.

If you are having problems or need assistance with the website service, please contact your HSBC Relationship Manager or e-mail: ecare@hsbcib.com.
<http://www.research.hsbc.com>

Disclosure appendix

Analyst Certification

The following analyst(s), economist(s), and/or strategist(s) who is(are) primarily responsible for this report, certifies(y) that the opinion(s) on the subject security(ies) or issuer(s) and/or any other views or forecasts expressed herein accurately reflect their personal view(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: Rajiv Sharma and Tucker Grinnan

Important disclosures

Stock ratings and basis for financial analysis

HSBC believes that investors utilise various disciplines and investment horizons when making investment decisions, which depend largely on individual circumstances such as the investor's existing holdings, risk tolerance and other considerations. Given these differences, HSBC has two principal aims in its equity research: 1) to identify long-term investment opportunities based on particular themes or ideas that may affect the future earnings or cash flows of companies on a 12 month time horizon; and 2) from time to time to identify short-term investment opportunities that are derived from fundamental, quantitative, technical or event-driven techniques on a 0-3 month time horizon and which may differ from our long-term investment rating. HSBC has assigned ratings for its long-term investment opportunities as described below.

This report addresses only the long-term investment opportunities of the companies referred to in the report. As and when HSBC publishes a short-term trading idea the stocks to which these relate are identified on the website at www.hsbcnet.com/research. Details of these short-term investment opportunities can be found under the Reports section of this website.

HSBC believes an investor's decision to buy or sell a stock should depend on individual circumstances such as the investor's existing holdings and other considerations. Different securities firms use a variety of ratings terms as well as different rating systems to describe their recommendations. Investors should carefully read the definitions of the ratings used in each research report. In addition, because research reports contain more complete information concerning the analysts' views, investors should carefully read the entire research report and should not infer its contents from the rating. In any case, ratings should not be used or relied on in isolation as investment advice.

Rating definitions for long-term investment opportunities

Stock ratings

HSBC assigns ratings to its stocks in this sector on the following basis:

For each stock we set a required rate of return calculated from the risk free rate for that stock's domestic, or as appropriate, regional market and the relevant equity risk premium established by our strategy team. The price target for a stock represents the value the analyst expects the stock to reach over our performance horizon. The performance horizon is 12 months. For a stock to be classified as Overweight, the implied return must exceed the required return by at least 5 percentage points over the next 12 months (or 10 percentage points for a stock classified as Volatile*). For a stock to be classified as Underweight, the stock must be expected to underperform its required return by at least 5 percentage points over the next 12 months (or 10 percentage points for a stock classified as Volatile*). Stocks between these bands are classified as Neutral.

Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation of coverage, change of volatility status or change in price target). Notwithstanding this, and although ratings are subject to ongoing management review, expected returns will be permitted to move outside the bands as a result of normal share price fluctuations without necessarily triggering a rating change.

*A stock will be classified as volatile if its historical volatility has exceeded 40%, if the stock has been listed for less than 12 months (unless it is in an industry or sector where volatility is low) or if the analyst expects significant volatility. However, stocks which we do not consider volatile may in fact also behave in such a way. Historical volatility is defined as the past

month's average of the daily 365-day moving average volatilities. In order to avoid misleadingly frequent changes in rating, however, volatility has to move 2.5 percentage points past the 40% benchmark in either direction for a stock's status to change.

Prior to this, from 7 June 2005 HSBC applied a ratings structure which ranked the stocks according to their notional target price vs current market price and then categorised (approximately) the top 40% as Overweight, the next 40% as Neutral and the last 20% as Underweight. The performance horizon is 2 years. The notional target price was defined as the mid-point of the analysts' valuation for a stock.

From 15 November 2004 to 7 June 2005, HSBC carried no ratings and concentrated on long-term thematic reports which identified themes and trends in industries, but did not make a conclusion as to the investment action that potential investors should take.

Prior to 15 November 2004, HSBC's ratings system was based upon a two-stage recommendation structure: a combination of the analysts' view on the stock relative to its sector and the sector call relative to the market, together giving a view on the stock relative to the market. The sector call was the responsibility of the strategy team, set in co-operation with the analysts. For other companies, HSBC showed a recommendation relative to the market. The performance horizon was 6-12 months. The target price was the level the stock should have traded at if the market accepted the analysts' view of the stock.

Rating distribution for long-term investment opportunities

As of 12 April 2010, the distribution of all ratings published is as follows:

Overweight (Buy)	48%	(12% of these provided with Investment Banking Services)
Neutral (Hold)	38%	(11% of these provided with Investment Banking Services)
Underweight (Sell)	14%	(9% of these provided with Investment Banking Services)

Analysts, economists, and strategists are paid in part by reference to the profitability of HSBC which includes investment banking revenues.

For disclosures in respect of any company mentioned in this report, please see the most recently published report on that company available at www.hsbcnet.com/research.

* *HSBC Legal Entities are listed in the Disclaimer below.*

Additional disclosures

- 1 This report is dated as at 13 April 2010.
- 2 All market data included in this report are dated as at close 12 April 2010, unless otherwise indicated in the report.
- 3 HSBC has procedures in place to identify and manage any potential conflicts of interest that arise in connection with its Research business. HSBC's analysts and its other staff who are involved in the preparation and dissemination of Research operate and have a management reporting line independent of HSBC's Investment Banking business. Information Barrier procedures are in place between the Investment Banking and Research businesses to ensure that any confidential and/or price sensitive information is handled in an appropriate manner.

Disclaimer

* Legal entities as at 31 January 2010

'UAE' HSBC Bank Middle East Limited, Dubai; 'HK' The Hongkong and Shanghai Banking Corporation Limited, Hong Kong; 'TW' HSBC Securities (Taiwan) Corporation Limited; 'CA' HSBC Securities (Canada) Inc, Toronto; HSBC Bank, Paris branch; HSBC France; 'DE' HSBC Trinkaus & Burkhardt AG, Dusseldorf; 000 HSBC Bank (RR), Moscow; 'IN' HSBC Securities and Capital Markets (India) Private Limited, Mumbai; 'JP' HSBC Securities (Japan) Limited, Tokyo; 'EG' HSBC Securities Egypt S.A.E., Cairo; 'CN' HSBC Investment Bank Asia Limited, Beijing Representative Office; The Hongkong and Shanghai Banking Corporation Limited, Singapore branch; The Hongkong and Shanghai Banking Corporation Limited, Seoul Securities Branch; The Hongkong and Shanghai Banking Corporation Limited, Seoul Branch; HSBC Securities (South Africa) (Pty) Ltd, Johannesburg; 'GR' HSBC Pantelakis Securities S.A., Athens; HSBC Bank plc, London, Madrid, Milan, Stockholm, Tel Aviv; 'US' HSBC Securities (USA) Inc, New York; HSBC Yatirim Menkul Degerler A.S., Istanbul; HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC, HSBC Bank Brasil S.A. - Banco Múltiple, HSBC Bank Australia Limited, HSBC Bank Argentina S.A., HSBC Saudi Arabia Limited.

Issuer of report

HSBC Securities and Capital Markets (India) Private Limited

Registered Office

52/60 Mahatma Gandhi Road

Fort, Mumbai 400 001, India

Telephone: +91 22 2267 4921

Fax: +91 22 2263 1983

Website: www.research.hsbc.com

This document has been issued by HSBC Securities and Capital Markets (India) Private Limited ("HSBC") for the information of its customers only. HSBC Securities and Capital Markets (India) Private Limited is regulated by the Securities and Exchange Board of India. If it is received by a customer of an affiliate of HSBC, its provision to the recipient is subject to the terms of business in place between the recipient and such affiliate. This document is not and should not be construed as an offer to sell or the solicitation of an offer to purchase or subscribe for any investment. HSBC has based this document on information obtained from sources it believes to be reliable but which it has not independently verified; HSBC makes no guarantee, representation or warranty and accepts no responsibility or liability as to its accuracy or completeness. Expressions of opinion are those of the Research Division of HSBC only and are subject to change without notice. HSBC and its affiliates and/or their officers, directors and employees may have positions in any securities mentioned in this document (or in any related investment) and may from time to time add to or dispose of any such securities (or investment). HSBC and its affiliates may act as market maker or have assumed an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis and may also perform or seek to perform investment banking or underwriting services for or relating to those companies and may also be represented in the supervisory board or any other committee of those companies. The information and opinions contained within the research reports are based upon publicly available information and rates of taxation applicable at the time of publication which are subject to change from time to time. Past performance is not necessarily a guide to future performance. The value of any investment or income may go down as well as up and you may not get back the full amount invested. Where an investment is denominated in a currency other than the local currency of the recipient of the research report, changes in the exchange rates may have an adverse effect on the value, price or income of that investment. In case of investments for which there is no recognised market it may be difficult for investors to sell their investments or to obtain reliable information about its value or the extent of the risk to which it is exposed.

HSBC Securities (USA) Inc. accepts responsibility for the content of this research report prepared by its non-US foreign affiliate. All U.S. persons receiving and/or accessing this report and wishing to effect transactions in any security discussed herein should do so with HSBC Securities (USA) Inc. in the United States and not with its non-US foreign affiliate, the issuer of this report.

In the UK this report may only be distributed to persons of a kind described in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001. The protections afforded by the UK regulatory regime are available only to those dealing with a representative of HSBC Bank plc in the UK. In Singapore, this publication is distributed by The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch for the general information of institutional investors or other persons specified in Sections 274 and 304 of the Securities and Futures Act (Chapter 289) ("SFA") and accredited investors and other persons in accordance with the conditions specified in Sections 275 and 305 of the SFA. This publication is not a prospectus as defined in the SFA. It may not be further distributed in whole or in part for any purpose. The Hongkong and Shanghai Banking Corporation Limited Singapore Branch is regulated by the Monetary Authority of Singapore. In Australia, this publication has been distributed by The Hongkong and Shanghai Banking Corporation Limited (ABN 65 117 925 970, AFSL 301737) for the general information of its "wholesale" customers (as defined in the Corporations Act 2001). Where distributed to retail customers, this research is distributed by HSBC Bank Australia Limited (AFSL No. 232595). These respective entities make no representations that the products or services mentioned in this document are available to persons in Australia or are necessarily suitable for any particular person or appropriate in accordance with local law. No consideration has been given to the particular investment objectives, financial situation or particular needs of any recipient.

In Japan, this publication has been distributed by HSBC Securities (Japan) Limited. In Hong Kong, this document has been distributed by The Hongkong and Shanghai Banking Corporation Limited in the conduct of its Hong Kong regulated business for the information of its institutional and professional customers; it is not intended for and should not be distributed to retail customers in Hong Kong. The Hongkong and Shanghai Banking Corporation Limited makes no representations that the products or services mentioned in this document are available to persons in Hong Kong or are necessarily suitable for any particular person or appropriate in accordance with local law. All inquiries by such recipients must be directed to The Hongkong and Shanghai Banking Corporation Limited. In Korea, this publication is distributed by The Hongkong and Shanghai Banking Corporation Limited, Seoul Securities Branch ("HBAP SLS") for the general information of professional investors specified in Article 9 of the Financial Investment Services and Capital Markets Act ("FSCMA"). This publication is not a prospectus as defined in the FSCMA. It may not be further distributed in whole or in part for any purpose. HBAP SLS is regulated by the Financial Services Commission and the Financial Supervisory Service of Korea.

© Copyright. HSBC Securities and Capital Markets (India) Private Limited 2010, ALL RIGHTS RESERVED. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, on any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of HSBC Securities and Capital Markets (India) Private Limited. MICA (P) 177/08/2009