Telecommunications

GSM subscribers cross 300mn mark

GSM operators recorded net additions of 8.3mn subscribers in May (excluding Reliance Communications), as against 8.96mn in April – a MoM dip of 7.4%. The decline in May follows a 20.3% MoM drop in April. Lower additions in both months were primarily due to BSNL whose new subscriber tally has fallen from 2.9mn in March to 0.45mn in May. Seasonally as well, the first half of the financial year is a slow period. In the last four years, ~42% of new subscribers were added in the first half of the fiscal. We expect a repeat of this trend in FY10 with several new network launches in the second half.

Bharti's net additions flat at 2.8mn: Bharti Airtel's net additions at 2.8mn were consistent with the previous month while remaining at the same level for close to a year now. In a highly competitive market, we see Bharti's ability to maintain a run-rate of 2.8mn additions as an encouraging sign and indicative of the company's strength and leadership position.

Vodafone's tally down 8.4% MoM: As in April, Vodafone witnessed a drop in additions for May. This comes after a consistent rise in subscriber additions till March following the extension of network coverage across India (seven new circle launches between August and December). May net additions at 2.54mn were down by 8.4% MoM.

Idea's net adds up 13.3%: Idea Cellular's net additions at 1.3mn subscribers in May (including Spice) were above its 1.15mn tally for April.

BSNL witnesses 55.9% plunge: BSNL's subscriber additions at 0.45mn were 56% lower than the company's April figure of 1.03mn and far short of the March figure of 2.9mn. However, as we have noted in the past, this is a common phenomenon in the BSNL subscriber trajectory owing to the year-end push in March to meet growth targets. We also believe BSNL is facing increasing pressure on rural subscriber retention and thus witnessing a higher churn due to the increasing penetration of market leaders in rural areas.

Aircel net adds flat at 1.1mn: Aircel's net additions were flat MoM at 1.1mn with 30% of the new subscribers coming from its leadership market in Tamil Nadu. Aircel recently raised US$ 500mn in ECBs in March '09.

Maintain Neutral sector outlook: In Q4FY09 all the major telecom players fared well with the exception of Bharti, whose revenue growth was below our expectations, and Rcom which witnessed a downturn in its wireless business. Further, operators have managed tariffs well by not responding to the reduction in mobile termination charges. However, increased competition over coming months would raise pressure on tariffs. We thus maintain our Neutral outlook on the sector.

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Bharti	850	7.1	55.0	17.5
Idea	88	43.8	95.5	63.1
Rcom	345	51.4	147.8	38.6
TTML	118	65.4	97.4	57.3
MTNL	39	69.3	100.0	94.5
Sensex	15,519	27.6	86.0	60.2

Wireless subscribers

(mn)	FY05	FY06	FY07	FY08	FY09
Bharti	11.0	19.6	37.1	62.0	93.9
Reliance	10.4	20.2	29.0	45.8	72.7
Vodafone	9.1	15.4	26.4	44.1	68.8
BSNL	9.4	17.2	30.7	40.8	52.1
Idea	6.5	9.3	16.7	28.2	43.0
Tata	3.3	8.4	16.0	24.4	35.1
Aircel	1.8	2.6	5.5	10.6	18.5
Others	2.3	3.4	4.2	5.2	7.6
Total	53.9	96.1	165.6	261.1	391.8

Source: TRAI, RHH

Wireless subscriber market share

(%)	FY05	FY06	FY07	FY08	FY09
Bharti	20.4	20.4	22.4	23.7	24.0
Reliance	19.4	21.0	17.5	17.5	18.5
Vodafone	17.0	16.0	15.9	16.9	17.6
BSNL	17.5	17.9	18.5	15.6	13.3
Idea	12.1	9.7	10.1	10.8	11.0
Tata	6.1	8.7	9.7	9.3	9.0
Aircel	3.3	2.7	3.3	4.1	4.7
Others	4.4	3.5	2.5	2.0	1.9
Total	100.0	100.0	100.0	100.0	100.0

Source: TRAI, RHH

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Fig 1 - Subscriber base by group

Operators	Subscriber base as at										
(in '000s)	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09
Bharti	72,078	74,778	77,479	80,200	82,921	85,651	88,383	91,115	93,923	96,735	99,549
Vodafone	50,950	52,759	54,625	56,704	58,764	60,933	63,340	65,921	68,769	71,542	74,081
BSNL	42,533	43,171	43,864	44,578	45,279	46,228	47,584	49,242	52,144	53,174	53,628
Idea (incl Spice)	32,446	32,842	33,980	35,220	36,516	38,013	40,016	41,519	43,023	44,174	45,478
Aircel	12,476	13,127	13,878	14,659	15,375	16,076	16,761	17,477	18,478	19,585	20,686
MTNL	3,816	3,909	3,958	4,024	4,101	4,188	4,296	4,378	4,483	4,530	4,568
BPL	1,440	1,517	1,664	1,808	1,882	1,948	2,007	2,073	2,164	2,205	2,257
Sub total1	**215,739**	**222,103**	**229,448**	**237,193**	**244,838**	**253,037**	**262,387**	**271,724**	**282,984**	**291,945**	**300,247**
Reliance	52,538	54,289	56,046	57,804	59,570	61,345	66,952	69,640	72,666	74,836	74,836
Tata	27,330	28,375	29,336	30,163	31,017	31,764	32,791	33,867	35,122	35,727	35,727
Others*	474	480	483	569	652	748	751	888	988	1,154	1,154
Sub total2	**80,342**	**83,144**	**85,865**	**88,536**	**91,239**	**93,857**	**100,494**	**104,396**	**108,776**	**111,718**	**111,718**
Total	**296,081**	**305,247**	**315,313**	**325,729**	**336,077**	**346,894**	**362,881**	**376,120**	**391,761**	**403,663**	**411,965**

Source: TRAI, RHH *Note: Due to delay in reporting of subscriber numbers by CDMA / dual technology players, the same is shown separately.* ** Others primarily include Shyam and HFCL.*

Fig 2 - Subscriber additions by group

Operators											
(in '000s)	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09
Bharti	2,694	2,700	2,701	2,721	2,721	2,730	2,732	2,732	2,808	2,812	2,814
Vodafone	1,755	1,809	1,866	2,079	2,060	2,169	2,407	2,581	2,848	2,773	2,539
BSNL	578	638	693	714	701	949	1,356	1,658	2,902	1,030	454
Idea (incl Spice)	704	396	1,138	1,240	1,296	1,497	2,003	1,503	1,504	1,151	1,304
Aircel	551	651	751	781	716	701	685	716	1,001	1,107	1,100
MTNL	98	93	49	66	77	87	108	82	105	47	39
BPL	62	77	147	144	74	66	59	66	91	40	52
Sub total1	**6,442**	**6,364**	**7,345**	**7,745**	**7,645**	**8,199**	**9,350**	**9,337**	**11,260**	**8,961**	**8,302**
Reliance	1,750	1,751	1,757	1,758	1,766	1,775	5,607	2,688	3,026	2,170	-
Tata	1,000	1,045	961	827	854	747	1,027	1,076	1,255	605	-
Others	21	6	3	86	83	96	3	137	100	166	-
Sub total2	**2,771**	**2,802**	**2,721**	**2,671**	**2,703**	**2,618**	**6,637**	**3,902**	**4,380**	**2,941**	**-**
Total	**9,213**	**9,166**	**10,066**	**10,416**	**10,348**	**10,817**	**15,987**	**13,239**	**15,640**	**11,902**	**8,302**

Source: TRAI, RHH

Fig 3 - Market share in subscriber base

	Subscriber base as at										
(%)	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09
Bharti	24.3	24.5	24.6	24.6	24.7	24.7	24.4	24.2	24.0	24.0	24.2
Vodafone	17.2	17.3	17.3	17.4	17.5	17.6	17.5	17.5	17.6	17.7	18.0
BSNL	14.4	14.1	13.9	13.7	13.5	13.3	13.1	13.1	13.3	13.2	13.0
Idea (incl Spice)	11.0	10.8	10.8	10.8	10.9	11.0	11.0	11.0	11.0	10.9	11.0
Aircel	4.2	4.3	4.4	4.5	4.6	4.6	4.6	4.6	4.7	4.9	5.0
MTNL	1.3	1.3	1.3	1.2	1.2	1.2	1.2	1.2	1.1	1.1	1.1
BPL	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.5	0.5
Sub total1	**72.9**	**72.8**	**72.8**	**72.8**	**72.9**	**72.9**	**72.3**	**72.2**	**72.2**	**72.3**	**72.9**
Reliance	17.7	17.8	17.8	17.7	17.7	17.7	18.5	18.5	18.5	18.5	18.2
Tata	9.2	9.3	9.3	9.3	9.2	9.2	9.0	9.0	9.0	8.9	8.7
Others	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3
Sub total2	**27.1**	**27.2**	**27.2**	**27.2**	**27.1**	**27.1**	**27.7**	**27.8**	**27.8**	**27.7**	**27.1**
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: TRAI, RHH *Note: May market share of net additions not comparable to previous months due to non-availability of CDMA subscriber additions*

Fig 4 - Market share in net additions

	Net additions market share										
(%)	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	Apr-09
Bharti	29.2	29.5	26.8	26.1	26.3	25.2	17.1	20.6	18.0	23.6	33.9
Vodafone	19.0	19.7	18.5	20.0	19.9	20.1	15.1	19.5	18.2	23.3	30.6
BSNL	6.3	7.0	6.9	6.9	6.8	8.8	8.5	12.5	18.6	8.7	5.5
Idea (incl Spice)	7.6	4.3	11.3	11.9	12.5	13.8	12.5	11.3	9.6	9.7	15.7
Aircel	6.0	7.1	7.5	7.5	6.9	6.5	4.3	5.4	6.4	9.3	13.3
MTNL	1.1	1.0	0.5	0.6	0.7	0.8	0.7	0.6	0.7	0.4	0.5
BPL	0.7	0.8	1.5	1.4	0.7	0.6	0.4	0.5	0.6	0.3	0.6
Sub total1	**69.9**	**69.4**	**73.0**	**74.4**	**73.9**	**75.8**	**58.5**	**70.5**	**72.0**	**75.3**	**100.0**
Reliance	19.0	19.1	17.5	16.9	17.1	16.4	35.1	20.3	19.3	18.2	0.0
Tata	10.9	11.4	9.5	7.9	8.3	6.9	6.4	8.1	8.0	5.1	0.0
Others	0.2	0.1	0.0	0.8	0.8	0.9	0.0	1.0	0.6	1.4	0.0
Sub total2	**30.1**	**30.6**	**27.0**	**25.6**	**26.1**	**24.2**	**41.5**	**29.5**	**28.0**	**24.7**	**0.0**
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: TRAI, RHH *Note: May market share of net additions not comparable to previous months as it contains only GSM net addition market share*

Fig 5 - Circle-wise share in subscriber base

Category (%)	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	Apr-09
Metros	16.7	16.6	16.4	16.3	16.3	16.2	16.1	15.9	15.8	15.7	15.6
A	35.7	35.6	35.6	35.5	35.3	35.3	35.2	35.2	35.0	34.9	34.8
B	36.9	37.0	37.0	37.1	37.2	37.2	37.4	37.4	37.5	37.6	37.6
C	10.7	10.8	10.9	11.0	11.2	11.3	11.3	11.4	11.7	11.9	12.1
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: TRAI, RHH *Note: May market share of net additions not comparable to previous months due to non-availability of CDMA subscriber additions*

Fig 6 - Circle-wise share in net additions

Category (%)	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09
Metros	13.4	14.5	10.6	13.0	16.2	12.0	14.1	11.8	13.6	10.7	8.5
A	34.1	32.2	35.9	33.8	29.0	32.7	34.5	35.7	29.6	29.6	31.9
B	39.5	39.8	39.0	39.6	38.8	39.7	40.0	38.0	39.9	40.0	38.3
C	13.0	13.6	14.5	13.6	16.1	15.6	11.4	14.5	17.0	19.8	21.3
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: TRAI, RHH *Note: May market share of net additions not comparable to previous months due to non-availability of CDMA subscriber additions*

Fig 7 - Circle-wise penetration rate

Category (%)	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09
Metros	85.3	87.6	89.4	91.7	94.6	96.9	100.6	103.4	107.1	109.3	110.5
A	30.1	31.0	32.0	33.0	33.8	34.8	36.4	37.8	39.1	40.1	40.8
B	21.3	22.0	22.7	23.5	24.3	25.2	26.4	27.4	28.6	29.5	30.1
C	14.2	14.7	15.4	16.0	16.8	17.5	18.3	19.2	20.4	21.4	22.2
Total	**25.8**	**26.6**	**27.5**	**28.4**	**29.3**	**30.3**	**31.6**	**32.8**	**34.2**	**35.2**	**35.9**

Source: TRAI, RHH

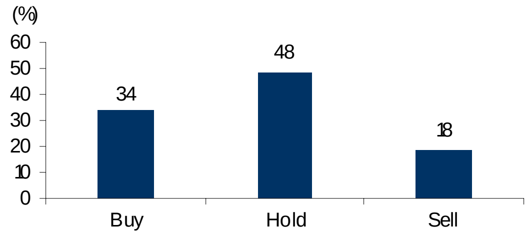
Fig 8 - Operator-wise, circle-wise market share (Apr-09)

Category (%)	Bharti	Vodafone	BSNL	Idea (incl Spice)	Reliance	Tata	Aircel	Others	% of all India Subs
Chennai	23.6	16.9	12.3	-	15.0	4.7	27.6	-	2.3
Delhi	21.9	18.5	-	10.5	18.1	21.1	0.6	9.2	5.6
Kolkata	21.0	24.3	13.7	-	23.4	13.0	4.6	-	3.0
Mumbai	14.3	22.7	-	4.2	22.7	12.0	0.3	23.8	4.9
Metro	**19.6**	**20.6**	**4.4**	**5.0**	**20.1**	**14.4**	**5.3**	**10.6**	**15.7**
Andhra Pradesh	30.3	13.1	11.1	16.6	18.1	10.5	0.3	-	7.7
Gujarat	17.1	33.4	10.8	16.4	16.5	5.8	-	-	6.1
Karnataka	42.1	15.9	11.7	7.0	16.9	5.9	0.4	-	6.0
Maharashtra	18.7	15.2	12.7	23.7	15.1	14.6	-	-	8.0
Tamilnadu	22.3	18.9	12.7	-	14.3	2.5	29.2	-	7.1
A Circle	**25.7**	**18.8**	**11.9**	**13.2**	**16.2**	**8.2**	**6.1**	**-**	**34.9**
Haryana	12.5	22.3	17.6	15.6	18.5	13.5	-	-	2.5
Kerala	14.4	19.3	18.6	26.5	15.9	4.7	0.6	-	4.2
Madhya Pradesh	22.7	2.1	14.7	24.4	29.9	6.2	-	-	5.3
Punjab	25.3	15.0	19.4	16.5	11.8	9.4	-	2.6	3.7
Rajasthan	30.8	22.1	13.6	5.3	13.8	11.0	-	3.3	5.8
UP East	21.8	24.4	22.0	7.4	18.8	5.5	0.1	-	7.0
UP West	12.0	22.6	13.6	20.9	19.5	11.1	0.2	-	5.0
West Bengal	23.1	31.3	12.7	-	19.2	6.1	7.5	-	4.0
B Circle	**21.1**	**19.8**	**16.6**	**14.0**	**18.7**	**8.1**	**0.9**	**0.8**	**37.6**
Assam	26.6	3.1	16.3	-	23.4	0.9	29.7	-	1.5
Bihar	35.3	4.8	14.0	4.5	26.5	8.2	6.6	-	5.5
Himachal Pradesh	28.3	1.7	27.7	4.2	30.1	4.0	4.0	-	0.9
Jammu & Kashmir	45.6	1.5	25.1	-	2.7	1.4	23.7	-	0.9
North East	27.3	5.9	22.8	-	13.1	0.6	30.2	-	0.9
Orissa	34.1	5.3	18.4	0.4	23.6	7.6	10.6	-	2.3
C Circle	**33.7**	**4.3**	**17.6**	**2.5**	**23.0**	**5.8**	**13.2**	**-**	**11.9**
Overall	**24.0**	**17.7**	**13.2**	**10.9**	**18.5**	**8.9**	**4.9**	**2.0**	**100.0**

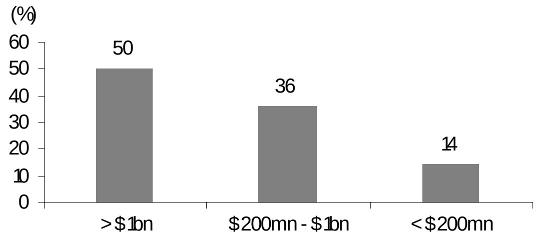
Source: TRAI, RHH

Coverage Profile

By recommendation



By market cap



Recommendation interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and –5%
Sell	Less than –5%

Recommendation structure changed with effect from March 1, 2009

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

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Disclaimer