

## India Telecom Sector

- Positive
- Neutral
- Negative (unchanged)

# Takeaways from 3G conference

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- Uptake of 3G services has been disappointing so far
- Ubiquity of access more important than network speed
- Applications centred on the ABCD segments could trigger growth in data usage

### ■ What's new

Most of the industry participants at a recent conference we attended – *3G India 2011* – were disappointed with the uptake of 3G services. We present the highlights of the conference, which was attended by mobile operators, content players and network vendors.

### ■ What's the impact

Penetration of 3G in India is around 2%, after less than a year since its introduction. A typical 3G user in India consumes less than 5MB of data per day.

The participants in the conference cited the lack of sufficient spectrum resources, inadequate network coverage, and the absence of mass-market affordable 3G handsets as the key reasons for the poor uptake of 3G services.

Most industry personnel felt that 3G services should boost overall

customer spend or average revenue per user (ARPU). However, one participant opined that incremental ARPU would be significantly higher when a customer migrates from a feature phone to a smartphone than when one migrates from a 2G phone to a 3G phone.

### ■ Potential impact on ARPU (%)

Migration from ...	Blended ARPU	Data ARPU
2G to 3G	7	57
Feature phone to smart phone	17	150

Source: Huawei India

Several operators are currently promoting 3G services by emphasising their superior data download speeds. However, ubiquity of access is seen as a far more important criterion than network speed to ensure good user experience. This is because many of the popular applications in the market do not need high speeds, but only connectivity at all times.

The participants believe that the applications/services centred on the following segments – Astrology, Bollywood, Cricket and Devotion, collectively referred to as the ABCD segments – could be successful. The above four segments cater to the interests of a large population of the country, and hence if available at affordable price points to the masses could trigger strong growth in data usage.

The above views reinforce our belief that 2G GPRS packs being offered currently by the telcos could continue to remain popular. Even though the price points on 3G plans are similar to that of the 2G GPRS plans, the ubiquity of the GPRS network is likely to ensure its popularity in the next couple of years.

### ■ Monthly data plans (Mumbai circle)

	3G		2G GRPS	
	Rs	Data usage limit	Rs	Data usage limit
Airtel	101	200 MB*	98	2 GB
Vodafone	102	100 MB	99	2 GB
Idea	105	200 MB*	98	2 GB

Source: Company

\* Double data usage offered for a limited period.

Note: Bharti Airtel (BHARTI IN, Rs 380.9, Underperform [4]); Idea Cellular (IDEA IN, Rs96.45, Underperform [4]); Vodafone India (Not listed)

### ■ Delegates at 3G India 2011 checking out 3G services at the Spice Digital counter



Source: Daiwa

### ■ What we recommend

We maintain our negative view on the sector with Underperform ratings on the three telcos under our coverage. The stocks are trading at EV/EBTIDA multiples of 6.7-8.2x on our FY12 forecasts, which we think is expensive considering the inherent risks involved.

### ■ How we differ

We believe the market is factoring in an overly optimistic operational performance and ignoring the medium-term risks related to regulatory developments (new telecom policy 2011, review of interconnect charges) over the next six months, which could be the key catalysts for a derating.

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