

Telecoms, Media & Technology
 Wireless Telecoms
 Equity – India

Indian Telecom Revenue Insights

Bharti, Idea Cellular: Revenue market share gains continue

- ▶ **Bharti's and Idea's pan-India revenue market share in Q3FY09 jumped by c60 basis points**
- ▶ **Contribution of "B" category circles on a pan-India basis improved 60 basis points to 32.3%**
- ▶ **Maharashtra, UP (East), Orissa and West Bengal show the highest revenue growth in the quarter; Bharti our top pick**

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We reiterate our view that investors are better placed to focus on revenue market share than on subscriber market share. We highlight that rising competitive intensity will aggravate the phenomenon of double SIMs, and subscriber-based metrics are likely to lose relevance in the near term. We expect subscriber numbers for the month of January 2009 to be distorted due to the double SIM phenomenon, so too much focus on the traditional metrics may not be meaningful. As per TRAI's financial data for the quarter ended December 2008, Bharti Airtel and Idea Cellular have recorded a c60bps q-o-q improvement in their pan-India revenue market share. Reliance Communications (RCOM) saw a 130bps decline.

Gains for Bharti came from its higher revenue market share in the 'A' category (by 50bps) and 'B' category circles (by 80bps), in metros by 40bps, and in 'C' circles, by a marginal 20bps. In sum, Bharti's revenue market share increase highlights a pan-India increase, in line with its sharp increase in subscriber market share over the past two quarters.

Loss in revenue market share for Reliance Communications was across the country. The biggest loss for RCOM came from 'C' category circles, where it lost 240bps, followed by 'A' category circles, where it lost 130bps. We note the trends were in line with the last quarter.

Unlike Q2 FY09, Q3 FY10 saw 16 circles achieve a q-o-q rise in revenue growth, resulting in c6.5% growth in pan-India revenues. Maharashtra, Orissa, Uttar Pradesh (UP) – East and West Bengal were the best performing markets.

Bharti Airtel (BHARTI IN, INR665.75, OW (V), target price INR786) our preferred stock. Bharti Airtel, with c25% wireless market share, enjoys a c33% revenue market share and remains our preferred stock in Indian wireless telecom. We continue to believe that Bharti's strong balance sheet and infrastructure sharing models will allow it to consolidate its revenue market share leadership further. We view higher regulatory charges and rising competitive intensity as the key downside risks.

Operator pan-India revenue market share

Operator	Mar-08	Jun-08	Sep-08	Dec-08
Bharti Airtel	29.6%	32.2%	32.5%	33.1%
RCOM (CDMA+GSM)	14.2%	13.3%	13.9%	12.6%
BSNL (incl. MTNL)	14.3%	11.3%	11.1%	11.0%
Tata Teleservices Ltd.	8.8%	8.6%	8.2%	8.1%
Idea Cellular Ltd.	8.7%	9.3%	9.4%	10.1%
Vodafone Essar	19.1%	19.9%	19.5%	19.9%
Others	5.4%	5.5%	5.3%	5.3%

Source: HSBC, TRAI

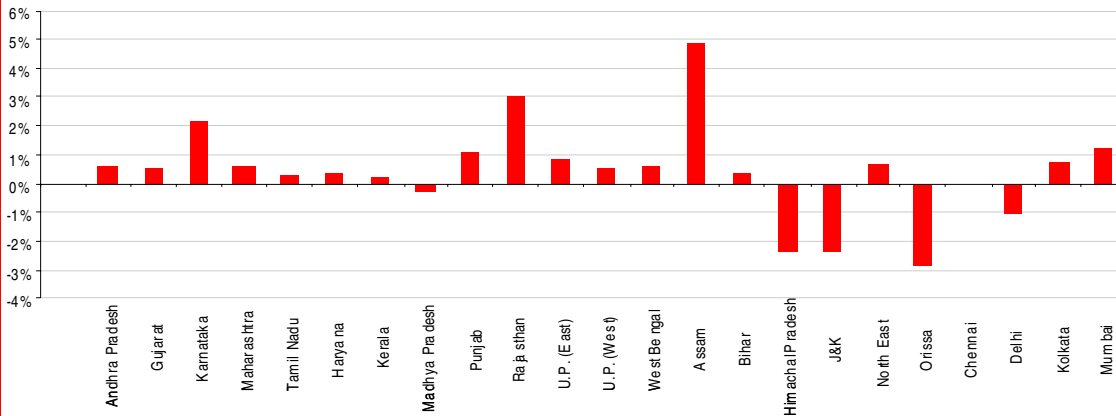
Key takeaways

- ▶ Bharti's revenue market share increased by 60bps during this quarter. It has gained revenue market share of c340bps over the past four quarters.
- ▶ Over the past four quarters, RCOM lost 280bps revenue market share, a reflection of its inherent disadvantage of being in the CDMA space; a similar trend is visible for Tata Teleservices. We further highlight that RCOM's GSM foray with value-destructive entry-level plans is likely to lead to a significant deterioration in its revenue market share, in our view.
- ▶ Idea Cellular and Vodafone Essar have also been gaining revenue market share over the past four quarters; Idea gained c190bps and Vodafone c100bps.
- ▶ BSNL continues to suffer on both subscriber market share and revenue market share, due to a delay in capex plans and poor execution. It lost 210bps revenue market share over the past four quarters.
- ▶ We highlight that three telcos – Bharti, Vodafone and Idea Cellular – have been gaining revenue market share, because of their GSM presence and synergies from the Indus tower joint venture.

Operator analysis – highlights

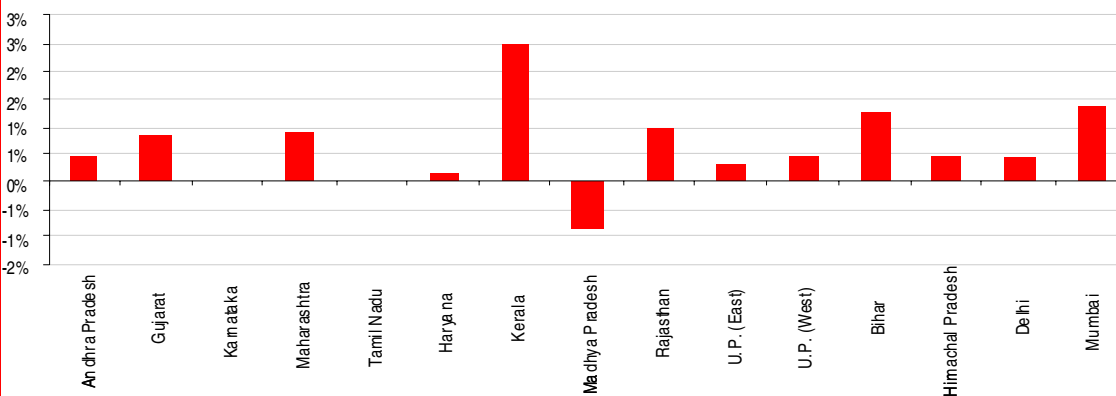
- ▶ Bharti's biggest revenue market share gains came from the Rajasthan (300bps), Punjab (100bps), Mumbai (120bps), Karnataka (220bps) and Assam (490bps) circles.
- ▶ Bharti's biggest loss in revenue market share was in Jammu & Kashmir (J&K) and Himachal Pradesh.
- ▶ RCOM gained revenue market share marginally only in J&K.
- ▶ RCOM's biggest loss in revenue market share came from Bihar, Orissa and Kolkata.
- ▶ Idea Cellular's biggest gains came in revenue market share from Maharashtra, Kerala, UP – West, Gujarat and Andhra Pradesh.

Bharti's circle gain/(loss) in revenue market share



Source: HSBC and TRAI

Idea's circle gain/(loss) in revenue market share

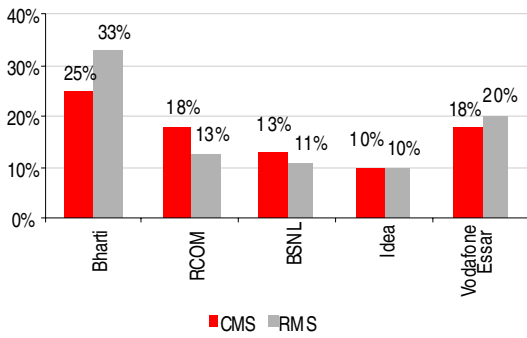


Source: HSBC and TRAI

Bharti remains our preferred play in Indian wireless telecom

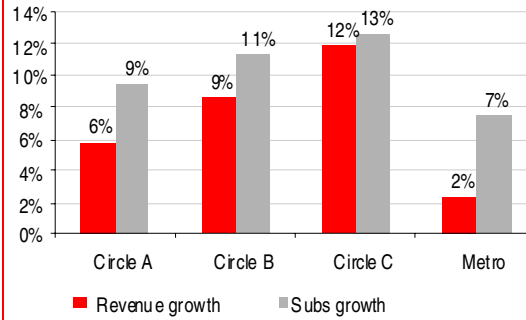
Despite the rising competitive intensity and regulatory risks, affordability makes telecoms a defensive sector in the Indian context. The current market favours companies with strong balance sheets, low leverage, large scale, and high ROE. What's more, after the Satyam issue, companies with records of strong corporate governance command a premium. Bharti ticks all these boxes and is our preferred play in Indian wireless. It is in a stronger financial position than its peers, which face subdued EBITDA numbers on the back of rollouts in new markets and/or technology migrations. We value Bharti using a blended approach. We value the core business at INR645 on 13.7x FY2010e core earnings based on a 15% premium to HSBC's Sensex target of 11.9x; we value the tower business at INR141 using DCF, which reflects a 36% discount to recent transaction multiples. We retain our Overweight (V) rating and our target price of INR786. We view higher regulatory charges and rising competitive intensity as the key downside risks.

Operator subscriber and revenue market share



Source: HSBC, TRAI, AUSPI and COAI

Circle revenue and subscriber growth



Source: HSBC, COAI, TRAI and AUSPI

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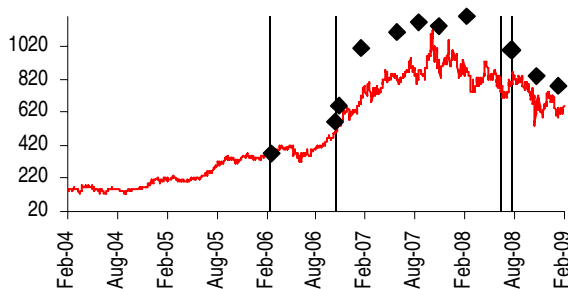
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Share price and rating changes for long-term investment opportunities

Bharti Airtel (BRTI.BO) Share Price performance INR Vs HSBC rating history



Source: HSBC

Recommendation & price target history

From	To	Date
N/A	Neutral	24 February 2006
Neutral	Overweight	23 October 2006
Overweight	Overweight	20 June 2008
Overweight	Overweight (V)	30 July 2008
Target Price	Value	Date
Price 1	376.00	24 February 2006
Price 2	560.00	23 October 2006
Price 3	660.00	02 November 2006
Price 4	1011.00	24 January 2007
Price 5	1110.00	04 June 2007
Price 6	1170.00	21 August 2007
Price 7	1140.00	07 November 2007
Price 8	1206.00	17 February 2008
Price 9	1003.00	30 July 2008
Price 10	1002.00	04 August 2008
Price 11	843.00	03 November 2008
Price 12	786.00	21 January 2009

Source: HSBC

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Company	Ticker	Recent price	Price Date	Disclosure
BHARTI AIRTEL	BRTI.NS	665.75	09-Feb-2009	6, 7

Source: HSBC

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