

Incumbents to benefit but uncertainties galore

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Price Performance

Bharti Airtel (TP: Rs464, Accum)

(%)	1M	3M	6M	12M
Absolute	8	0	(9)	19
Rel. to Nifty	(3)	0	(8)	23

Idea cellular (TP: Rs105, Accum)

(%)	1M	3M	6M	12M
Absolute	15	2	(1)	39
Rel. to Nifty	4	2	0	44

RCom (TP: Rs82, Hold)

(%)	1M	3M	6M	12M
Absolute	31	19	(2)	(17)
Rel. to Nifty	18	18	(1)	(15)

Source: Bloomberg

- Supreme Court has passed ruling to cancel 122 licenses for 11 telcos (licenses issued from 2008 onwards). Operators are allowed to operate for 4 months with the existing licenses
- As per the media articles TRAI is expected to come up fresh recommendation on re-auction of licences within next 3-4 months time frame
- Cancellation is a slight positive as cancelled licenses contribute minuscule revenue but it would result in lesser number of operators in the industry. Likely that non-serious operators would not bid in re-auction process
- Idea's cancellation of 7 operational licences contributes 1.7% to AGR (Q2FY12). Being pan India operator, Idea would opt for re-bidding of license which will have cashflow impact

Which telcos are at loss?

Telcos like Uninor, Videocon, Loop, Shyam Sistema would be the worst hit from the SC ruling to cancel the licenses. Idea, Tata Teleservices would be among lesser hit from the ruling. The SC has also imposed penalties of Rs50mn on Tata Teleservices, Unitech and DB Realty for being beneficiaries. Rcom which holds dual technology license has no major impact from this ruling. However, Aircel remained out of today's ruling.

What is at stake?

The companies have paid Rs16.6bn for licenses in 2008 and have invested in infrastructure for the services which significantly higher than initial fees paid. There is no clarity on whether government will refund or forfeit the initial license fees. Foreign operators like Uninor, Shyam Sistema and DB Etisalat have invested huge amount of money which could be at stake. Re-auctioning of the licenses at the current price with the policy of spectrum de-linked with licenses could lead to huge cash outlay for these operators. TRAI's recommendations could become important in terms of dealing with residual networks without licenses. The larger incumbents may not find much value in buying out the network infrastructure of new entrants.

Who will participate in Re-auction?

As per the media articles, the operators who have lost the licenses can participate in re-auction process and get back their licenses. Cancellation of license would provide an opportunity to non-serious operators to exit the business. The operators like DB Etisalat, Stel, Loop and Videocon would not participate in the re-auction process, in our view. Given the hyper competitive scenario in the industry, the non serious operators would shy way to put new investments for prolonged losses they might have to incur going forward. Further, the clarity is awaited from the government about what would the pricing of the spectrum and detailed recommendations on re-auction of cancelled licenses. Earlier proposed pricing recommended by TRAI is already challenged by the operators. Competition in the re-bidding process will be low, given the financial position of the operators.

How this will benefit incumbents?

As stated above that in our view major pan India players whose licenses have been cancelled (Loop, Videocon and DB Etisalat) would not participate in the re-auctioning of the license and it would vacate enough spectrum. So, this will also ease the spectrum supply and pricing pressure. This implies that license renewals coming up from FY14E for Bharti and Idea could result in lesser outgo for spectrum as anticipated currently (our calculation as per TRAI pricing suggests NPV of Rs90-100bn for license renewal of Bharti and Idea). The license cancellation is positive for the incumbents (Bharti, Vodafone and Idea) as number of operators would reduce and this could lead to healthy competition going forward.

Key circles where Idea's licenses have been cancelled

As per the SC ruling, Idea's 9 circles have cancelled out of which 7 circles are operational and the remaining two are of erstwhile Spice Communication which are non-operational. All the 7 circles mentioned below contribute only 3.8% of gross revenue and 1.7% of Q2FY12 AGR for Idea. All these circles are loss marking for Idea at current juncture.

Circles	% of Q2FY12 AGR
Assam	0.2%
Orissa	0.3%
Tamil Nadu	0.3%
West Bengal	0.6%
J & K	0.1%
Kolkata	0.1%
North East	0.1%
Total	1.7%

Source: TRAI

List of fresh licenses issued post 2008

Circle	Unitech	Videocon	Idea	S Tel	Loop	Shyam Sistema	Erstwhile Spice Communication (now merged with Idea)	Swan	TTSL	Total
Delhi	1	1			1	1	1	1		6
Mumbai	1	1				1		1		4
Kolkata	1	1	1		1	1				5
Karnataka	1	1	1		1	1		1		6
Andhra Pradesh	1	1			1	1	1	1		6
Gujarat	1	1			1	1		1		5
Maharashtra	1	1			1	1	1	1		6
Tamil Nadu	1	1	1		1	1		1		6
Kerala	1	1			1	1		1		5
Punjab	1	1	1		1	1		1		6
Haryana	1	1			1	1	1	1		6
Rajasthan	1	1			1			1		4
Madh1a Pradesh	1	1			1	1				4
Up (East)	1	1			1	1		1		5
Up (West)	1	1			1	1		1		5
West Bengal	1	1	1		1	1				5
Himachal Pradesh	1	1		1	1	1				5
Bihar	1	1		1	1	1				5
Orissa	1	1	1	1	1	1				6
Assam	1	1	1	1	1	1			1	7
North East	1	1	1	1	1	1			1	7
Jammu & Kashmir	1	1	1	1	1	1			1	7
All Circles	22	22	9	6	21	21	4	13	3	121

Source: DoT

Circle-wise spectrum holding (MHz)

Operator	Idea	Tata	Uninor	Syham Sistema	DB Etisalat	Stel	Videocon	BSNL/ MTNL	Loop
Delhi	8.0			2.5	4.4		4.4	12.4	
Mumbai	4.4	4.4	4.4	2.5	4.4		4.4	12.4	10
Kolkata	4.4	4.4	4.4	2.5			4.4	10	4.4
Maharashtra	9.8	4.4	4.4	2.5	4.4		4.4	10	4.4
Gujarat	6.2	4.4	4.4	2.5	4.4		4.4	7.4	4.4
Andhra Pradesh	8.0	4.4	4.4	2.5	4.4		4.4	10	4.4
Karnataka	6.2	4.4	4.4	2.5	4.4		4.4	10	4.4
Tamil Nadu	4.4	4.4	4.4	2.5	4.4		4.4	10	4.4
Kerala	8.0	4.4	4.4	2.5	4.4		4.4	10	4.4
Punjab	7.8	4.4	4.4	2.5	4.4		4.4	6.2	4.4
Haryana	6.2	4.4	4.4	2.5	4.4		4.4	10	4.4
UP - West	8.0	4.4	4.4	2.5	4.4		4.4	10	4.4
UP - East	6.2	4.4	4.4	2.5	4.4		4.4	10	4.4
Rajasthan	6.2	4.4	4.4	5	4.4		4.4	8	4.4
Madhya Pradesh	8.0	4.4	4.4	2.5	4.4		4.4	10	4.4
West Bengal	4.4	4.4	4.4	2.5			4.4	8	4.4
Himachal Pradesh	4.4	4.4	4.4	2.5		4.4	4.4	10	4.4
Bihar	4.4	4.4	4.4	2.5	4.4	4.4	4.4	10	4.4
Orissa	4.4	4.4	4.4	2.5		4.4	4.4	10	4.4
Assam	4.4	0	4.4	2.5		4.4	4.4	10	4.4
North East	4.4	0	4.4	2.5		4.4	4.4	10	4.4
J&K	4.4	0	4.4	2.5		4.4	4.4	8	4.4

Source: DoT

Note: Shyam Sistema has CDMA spectrum in 800MHz

Operator-wise revenue market share

Company	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12
Bharti Airtel	33.1%	33.3%	32.7%	32.8%	33.3%	32.2%	32.0%	31.1%	31.6%	30.8%
Vodafone	20.2%	19.9%	20.7%	20.7%	20.5%	20.5%	20.8%	21.2%	21.1%	21.0%
Idea Cellular	13.6%	12.3%	13.1%	12.8%	13.0%	12.9%	13.4%	13.9%	14.0%	14.0%
Reliance Telecom	10.9%	10.8%	10.8%	9.1%	9.9%	10.0%	8.8%	8.2%	7.8%	8.2%
Tata-Tele Services	6.9%	7.6%	7.3%	9.0%	8.4%	8.8%	9.0%	9.4%	9.2%	9.0%
BSNL	10.0%	10.4%	9.8%	9.2%	8.2%	8.2%	8.1%	8.3%	7.8%	7.7%
Aircel	3.5%	3.9%	3.9%	4.7%	4.9%	5.1%	4.9%	4.8%	4.8%	4.9%
MTNL	0.6%	0.7%	0.6%	0.5%	0.5%	0.5%	0.6%	0.5%	0.5%	0.6%
BPL Mobile	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.7%	0.6%	0.6%
Shyam Sistema	0.1%	0.1%	0.2%	0.3%	0.3%	0.4%	0.6%	0.7%	0.8%	1.0%
HFCL	0.1%	0.1%	0.1%	0.1%	0.1%	0.2%	0.2%	0.2%	0.1%	0.1%
Uninor	0.1%	0.1%	0.0%	0.2%	0.2%	0.4%	0.9%	1.1%	1.4%	1.7%
DB Etisalat	0.2%	0.1%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
STel	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%	0.1%	0.1%
Videocon	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.2%	-0.1%	0.1%	0.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: TRAI

Operator-wise wireless subscribers (in million)

Company	May' 11	Jun' 11	Jul' 11	Aug' 11	Sep' 11	Oct' 11	Nov' 11	Dec' 11
Bharti Airtel	167.1	169.2	170.7	171.8	172.8	173.7	174.7	175.7
Reliance	141.2	143.3	144.8	146.1	147.1	148.1	149.1	150.1
Vodafone	139.4	141.5	143.0	144.1	145.0	145.9	146.8	147.7
BSNL	87.6	88.5	90.2	90.6	91.1	91.6	92.1	92.6
Idea	93.8	95.1	96.1	98.4	100.2	101.8	104.0	106.4
TTSL	90.6	90.8	88.1	88.4	88.6	87.6	83.2	83.3
Aircel	57.1	58.0	58.6	59.2	59.8	60.3	61.0	61.6
MTNL	5.2	5.2	5.3	5.3	5.3	5.4	5.4	5.4
BPL Mobile	3.1	3.2	3.2	3.2	3.2	3.2	3.2	3.2
HFCL	1.4	1.4	1.4	1.4	1.2	1.2	1.2	1.2
Shyam Sistema	11.2	11.7	12.3	12.8	13.3	14.0	14.5	15.0
Stel	3.2	3.3	3.5	3.4	3.5	3.5	3.6	3.5
Uninor	25.4	26.3	27.4	27.7	29.7	32.3	34.2	36.3
Videocon	7.1	7.1	7.0	6.4	6.3	6.1	5.5	5.4
DB Etisalat	1.3	1.4	1.4	1.5	1.5	1.6	1.6	1.7
Total	834.6	846.0	853.0	860.5	868.4	876.3	880.1	889.2

Source: TRAI

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