

## India: Telecom Services

# BWA auction: New entrants emerge winners; incumbents cautious

### Infotel emerges as a pan-India BWA operator

As per a Department of Telecom (DoT) release, Infotel has won broadband wireless access (BWA) spectrum in 22 circles for US\$2.89 bn, making it a pan-India BWA operator. We expect the company to roll out LTE (long-term evolution) after it gets the spectrum. Qualcomm, Aircel, Bharti and Tikona were the other winners who won licenses in 4, 8, 4 and 5 circles and have to pay US\$1.1 bn, US\$773 mn, US\$746 mn and US\$238 mn, respectively. RCOM, Idea, Vodafone and TCOM did not win any BWA spectrum in any of the circles.

### RIL acquires stake in Infotel; BWA unlikely to be threat to 3G

Reliance Industries Limited on June 11 announced that it has entered into an agreement to acquire 95% stake in Infotel Broadband. RIL said it will invest about Rs 48 bn (US\$ 1.02 bn) by way of subscription to fresh equity capital at par to be issued by Infotel Broadband. We note that Bharti complemented its 3G footprint by acquiring BWA licenses in Kolkata, Maharashtra and Punjab. To our surprise, Aircel acquired all BWA licenses in circles where it already owns 3G licenses. We do not expect BWA to emerge as a threat to 3G as we believe ecosystem of BWA is not as evolved as 3G.

### Sound strategy by incumbents for BWA auction, in our view

We see the incumbent operators' non-aggressive approach to the BWA auction as a sound strategy, as we believe the Indian BWA ecosystem may not enjoy global economies of scale for both base station and CPEs (customer premise equipment), given the unpaired TDD (Time Division Duplexing) band being auctioned in India. This would likely lead to higher cost for equipment, particularly for LTE equipment, and potentially delay returns on invested capital.

### Modeling in BWA costs; lowering MTNL TP, estimates

We lower our FY11E/FY12E EPS estimates for Bharti by 1% and 3% as we model in higher costs (higher D&A and net interest expenses) associated with BWA. Our 12-month DCF-based target price remains unchanged at Rs290. We lower our FY11/FY12 EPS estimates for MTNL from Rs -4.07/ Rs -13.27 to Rs -3.96/ Rs -24.52, as we model in BWA and 3G costs; MTNL, being a state-owned entity, has to match the winning bids in Delhi and Mumbai. As a result, our 12-month DCF-based TP reduces from Rs 58 to Rs 49, and from US\$2.38 to US\$2.01 for the ADR. We maintain our Neutral ratings on Bharti and RCOM, and Sell on Idea, MTNL and TCOM.

#### EX 1: SUMMARY OF RATINGS AND TARGET PRICES

Company	Ticker	Rating	Current Price (Rs)	12-m TP (Rs)	Potential Return	Valuation Methodology
Bharti	BRTI.BO	Neutral	285.25	290	2%	DCF
RCOM	RLCM.BO	Neutral	174.15	150	-14%	SOTP
Idea	IDEA.BO	Sell	55.30	49	-11%	SOTP
TCOM	TATA.BO	Sell	250.25	250	0%	SOTP
MTNL	MTNL.BO	Sell	53.90	49	-9%	DCF

Share prices based on the close as at June 10, 2010.

Source: FactSet, Goldman Sachs Research estimates.

**Risks:** **Upside:** Faster-than-expected recovery from price wars; **Downside:** Higher-than-estimated capex/opex.

#### EX 2: VALUATION (FISCAL-YEAR BASIS)

	P/E (X)		EV/EBITDA (X)		Net debt/EBITDA (X)	
	11E	12E	11E	12E	10A	11E
BRTI	12.7	12.2	6.7	5.7	0.3	2.8
RCOM	11.1	10.8	7.4	6.2	2.5	3.1
Idea	22.0	28.1	6.6	6.1	1.1	2.4
TCOM	NM	NM	9.4	7.7	5.9	5.7
MTNL	NM	NM	NM	NM	NM	NM
<b>Average</b>	<b>15.3</b>	<b>17.0</b>	<b>6.9</b>	<b>6.0</b>	<b>2.5</b>	<b>3.5</b>

Source: FactSet, Goldman Sachs Research estimates.

Note: Net debt for Bharti includes debt taken for Zain's acquisition

#### EX 3: WHAT HAS CHANGED (FISCAL-YEAR BASIS)

(Rs)	New			Old			Variance		
	11E	12E	13E	11E	12E	13E	11E	12E	13E
<b>Bharti Airtel</b>									
EPS	22.37	23.34	28.28	22.67	23.94	28.77	-1%	-3%	-2%
TP	290			290					
<b>MTNL</b>									
EPS	-3.96	-24.52	-23.02	-4.07	-13.27	-11.39	NM	NM	NM
TP	49			58					

Source: Goldman Sachs Research estimates.

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## Summary of winning auction bids

**Exhibit 1: Payment matrix of winning bidders**

	(Rs mn)	Winning bid	Infotel	Qualcomm	Aircel	Bharti	Tikona	Augere	RCOM	Idea	VOD	TCOM	Spice	Slots
Metros	Delhi	22,410	22,410	22,410										2
	Kolkata	5,232	5,232			5,232								2
	Mumbai	22,930	22,930	22,930										2
Circle A	Andhra Pradesh	10,591	10,591		10,591									2
	Gujarat	6,139	6,139				6,139							2
	Karnataka	15,433	15,433			15,433								2
	Maharashtra	9,156	9,156			9,156								2
	TN (incl. Chennai)	20,695	20,695		20,695									2
Circle B	Haryana	1,199	1,199	1,199										2
	Kerala	2,587	2,587	2,587										2
	Madhya Pradesh	1,247	1,247					1,247						2
	Punjab	3,323	3,323			3,323								2
	Rajasthan	973	973				973							2
	Uttar Pradesh (E)	1,425	1,425				1,425							2
	Uttar Pradesh (W)	1,839	1,839				1,839							2
	West Bengal	710	710		710									2
Circle C	Assam	330	330		330									2
	Bihar	993	993		993									2
	Himachal Pradesh	207	207				207							2
	Jammu & Kashmir	213	213		213									2
	North East (NE)	213	213		213									2
	Orissa	636	636		636									2
Total amount to be paid (Rs mn)		128,478	49,125	34,380	33,144	10,582	1,247	0	0	0	0	0	0	
Total amount to be paid (US\$ mn)		2,890	1,105	773	746	238	28	0	0	0	0	0	0	

Source: DoT, Goldman Sachs Research.

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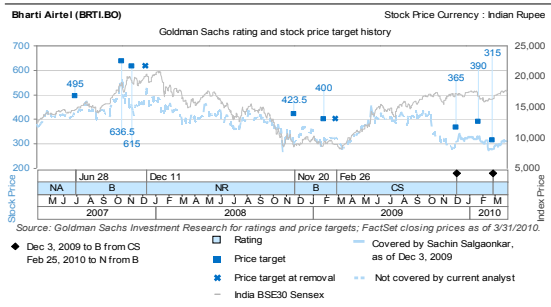
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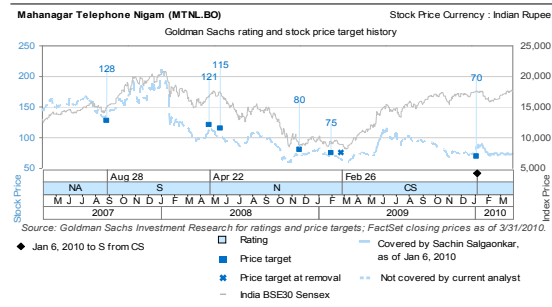
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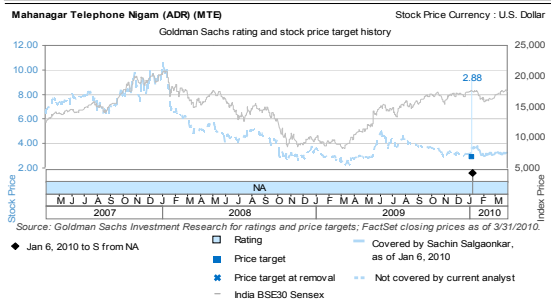
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