

Telecom sector

GSM net subscriber addition cooling off

GSM subscriber data reported by Cellular Operators Association of India (COAI), which was showing a declining trend since March 2011, grew in September 2011. Net subscriber addition number stood at 6.5mn, up 22% mom, taking the total GSM subscriber base to 618.3mn in September 2011. Even though the mom declining trend in subscriber net addition was altered, GSM subscriber net addition data was weak across all telecom operators, except BSNL and Uninor.

Weakness seen across the board

In September 2011, net addition run rate on mom basis for all operators (except BSNL and Uninor) dropped off again (Refer Exhibit 5 and 6). Among incumbents, Bharti Airtel (Bharti) and Vodafone reported a significant decline in their net subscriber addition numbers, with net addition numbers dropping to merely 0.9mn and 0.8mn, down 18.6% and 25.1% mom, respectively, which led to a decline in their subscriber market share by 20bp and 10bp to 27.9% and 23.5%, respectively. Idea, which bucked the declining trend in subscriber net addition in August 2011, reported a 25.4% mom decline in subscriber net additions in September 2011 to 1.7mn. BSNL emerged as the dark horse by reporting a whopping 16.1% mom jump in subscriber net additions to 0.5mn. Aircel reported almost flat mom subscriber net additions at 0.6mn.

Among new operators, Videocon reported a net decline of 0.1mn subscribers in its subscriber base. Net subscriber addition of S Tel and Loop Mobile declined by 193.0% and 21.7% mom, as these operators added merely 0.1mn and 0.01mn subscribers, respectively. Unlike other players, Uninor reported a whopping 448% mom jump in subscriber net addition by adding 1.9mn subscribers, which led to a 30bp qoq increase in its subscriber market share to 4.8%.

Circle-wise highlights

In September 2011, net addition run rate of all circles (except A circle) improved, the highest being for B circle, which reported addition of 3.2mn subscribers, up 60.7% mom from 2.0mn in August 2011. This led to an increase in net subscriber addition market share of B circle to 48.7% from 37.0%. For September 2011, in the Metro circle, 0.6mn subscribers were added, up 44.3% mom, with Aircel reporting the highest net addition of 0.16mn subscribers, followed by Idea, Vodafone and Bharti, which reported 0.15mn, 0.13mn and 0.09mn net subscriber additions, respectively. Subscriber addition run rate of A circle declined by 16.4% mom to 1.9mn as against 2.3mn in August 2011. Subscriber addition in C circle increased to 0.8mn from 0.6mn in August 2011.

Recommendation summary

Company	Reco.	CMP (₹)	Tgt. price (₹)	Upside (%)	FY2013E P/BV (x)	FY2013E P/E (x)	FY2011-13E EPS CAGR (%)	FY2013E RoCE (%)	FY2013E RoE (%)
Bharti Airtel	Accumulate	385	430	11.7	2.3	15.6	24.7	12.9	14.9
Idea Cellular	Neutral	94	-	-	2.2	25.5	16.4	10.5	8.5
RCom	Neutral	76	-	-	0.5	11.9	(0.4)	4.2	3.1

Source: Company, Angel Research

Srishti Anand

+91 22 3835 7800 Ext: 6820

srishti.anand@angelbroking.com

Ankita Somani

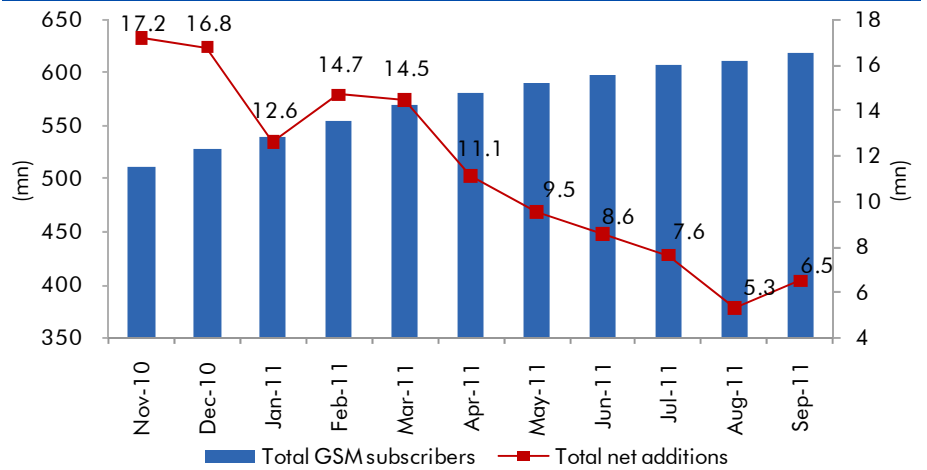
+91 22 3835 7800 Ext: 6819

ankita.somani@angelbroking.com

Incumbents uphold subscriber addition market share

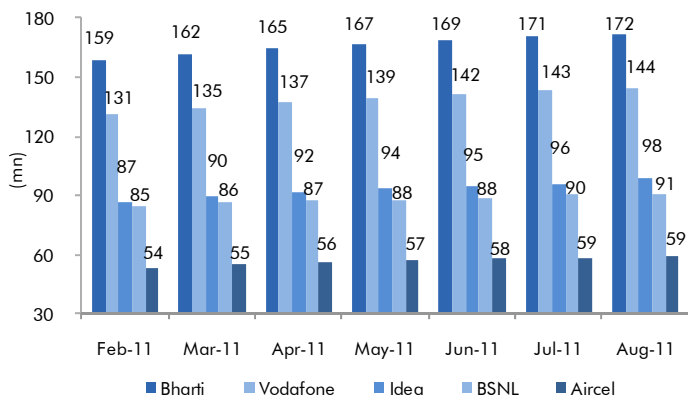
In September 2011, the total GSM subscriber base touched 618.3mn, up merely 1.1% mom, as net subscriber addition was low at 6.5mn.

Exhibit 1: GSM subscriber base and net additions – Pan India



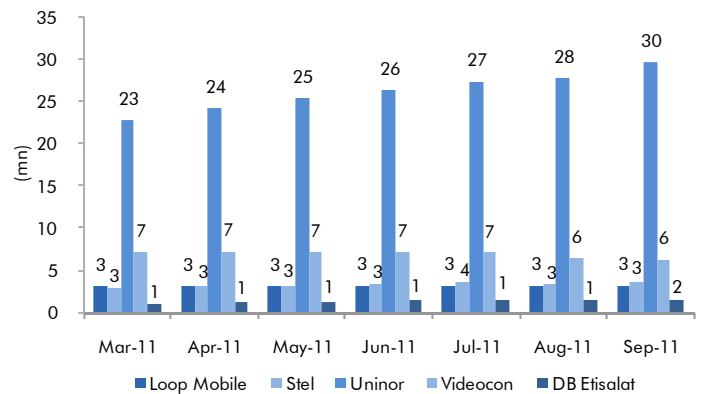
Source: Company, Angel Research

Exhibit 2: Total GSM subscribers – Incumbents



Source: Company, Angel Research

Exhibit 3: Total GSM subscribers – New players



Source: Company, Angel Research

Exhibit 4: Total GSM subscribers

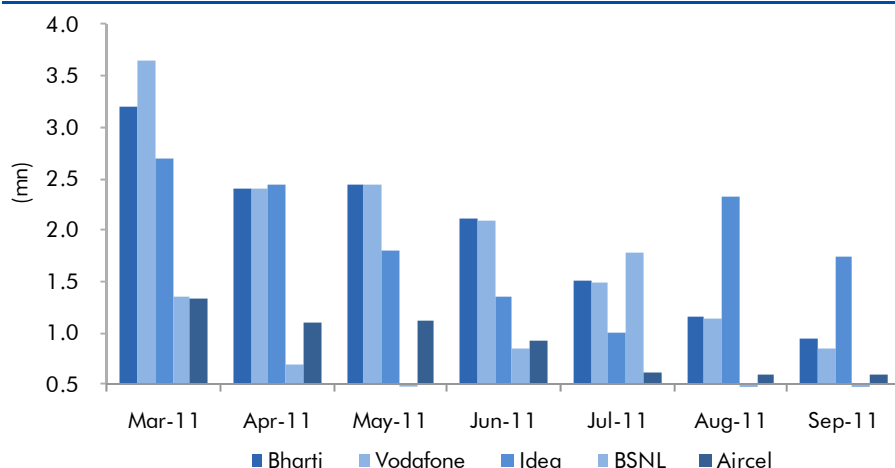
Company (mn)	Mar-11	Apr-11	May -11	Jun-11	July-11	Aug-11	Sep-11
Bharti	162.2	164.6	167.1	169.2	170.7	171.8	172.8
Vodafone	134.6	137.0	139.4	141.5	143.0	144.1	145.0
BSNL	86.5	87.1	87.6	88.5	90.2	90.6	91.1
Idea	89.5	92.0	93.8	95.1	96.1	98.4	100.2
Aircel	54.8	56.0	57.1	58.0	58.6	59.2	59.8
MTNL	5.2	5.2	5.2	5.2	5.3	5.3	5.3
Loop Mobile	3.1	3.1	3.1	3.2	3.2	3.2	3.2
S Tel	2.8	3.0	3.2	3.3	3.5	3.4	3.5
Uninor	22.8	24.2	25.4	26.3	27.4	27.7	29.7
Videocon	7.1	7.2	7.1	7.1	7.0	6.4	6.3
DB Etisalat	1.0	1.2	1.3	1.4	1.4	1.5	1.5
Total	569.6	580.7	590.2	598.8	606.4	611.8	618.3

Source: Company, Angel Research

In September 2011, net subscriber addition stood the highest for Idea, which added 1.7mn subscribers, taking its total subscriber base to 100.2mn. On the other hand, Bharti and Vodafone added merely 0.9mn and 0.8mn subscribers (lowest level till date), taking their total subscriber base to 172.8mn and 145mn, respectively. BSNL’s net subscriber addition growth was the highest amongst all incumbents at 16.1% on mom basis; however, in absolute terms, the company added merely 0.5mn subscribers, taking its total subscriber base to 91.2mn. Aircel added 0.6mn subscribers, taking its total subscriber base to 59.8mn.

Among new players, Uninor added 1.9mn subscribers, the highest among all telecom players, taking its total subscriber base to 29.7mn. However, Videocon reported a net decline of 0.1 mn subscribers in its subscriber base.

Exhibit 5: GSM subscriber net addition – Incumbents



Source: Company, Angel Research

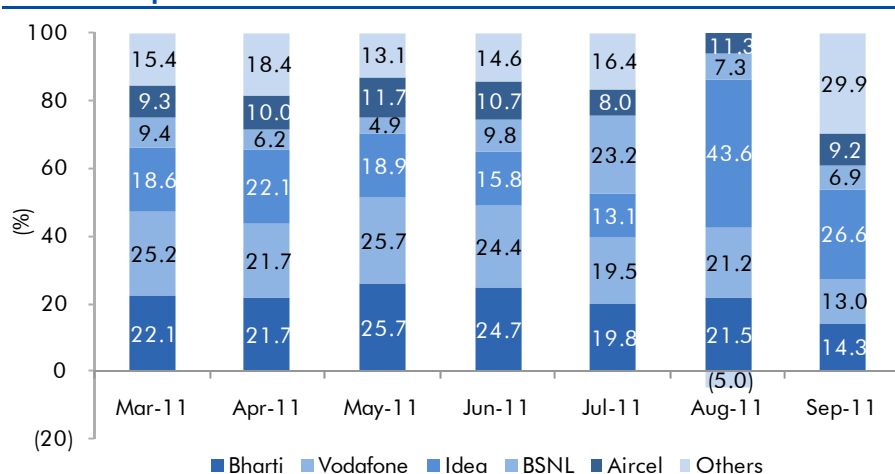
Exhibit 6: Operator-wise net subscriber additions

Company (mn)	Mar-11	Apr-11	May -11	Jun-11	July-11	Aug-11	Sep-11
Bharti	3.2	2.4	2.5	2.1	1.5	1.2	0.9
Vodafone	3.6	2.4	2.4	2.1	1.5	1.1	0.8
BSNL	1.4	0.7	0.5	0.8	1.8	0.4	0.5
Idea	2.7	2.5	1.8	1.4	1.0	2.3	1.7
Aircel	1.3	1.1	1.1	0.9	0.6	0.6	0.6
MTNL	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loop Mobile	0.0	0.0	0.0	0.0	0.0	0.0	0.0
S Tel	0.1	0.2	0.2	0.2	0.2	(0.1)	0.1
Uninor	1.2	1.5	1.1	0.9	1.1	0.3	1.9
Videocon	0.5	0.1	(0.2)	0.1	(0.1)	(0.7)	(0.1)
DB Etisalat	0.3	0.2	0.1	0.1	0.1	0.1	0.0
Total	14.5	11.1	9.5	8.6	7.6	5.3	6.5

Source: Company, Angel Research

Uninor’s highest subscriber addition in September 2011 led to a jump in its net subscriber addition market share to 29.4% in September 2011 from 6.5% in August 2011. The company’s overall subscriber market share also increased to 4.8% in September 2011 from 4.5% in August 2011.

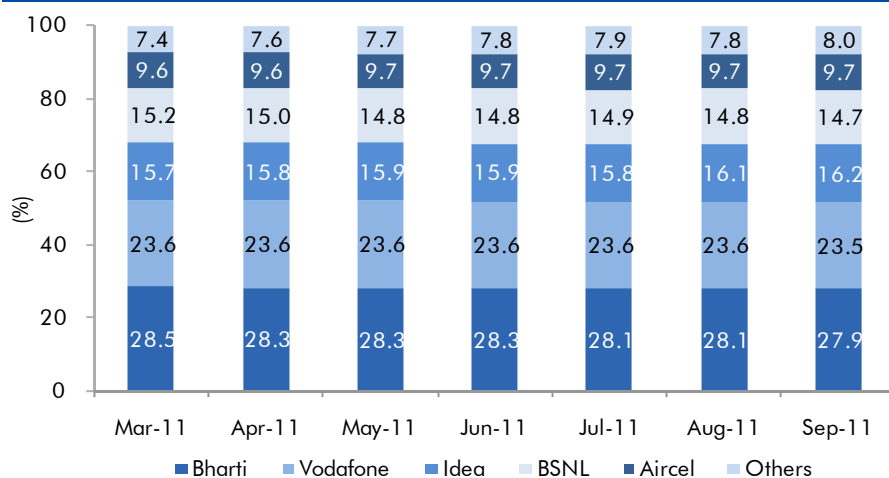
Exhibit 7: Operator-wise market share in net additions



Source: Company, Angel Research

Subscriber market share of Bharti and Vodafone declined to 27.9% and 23.5% in September 2011 from 28.1% and 23.6% in August 2011, respectively, due to sluggish subscriber addition. Idea, BSNL and Aircel managed to sustain their subscriber market share at 16.2%, 14.7% and 9.7%, respectively.

Exhibit 8: Operator-wise subscriber market share



Source: Company, Angel Research

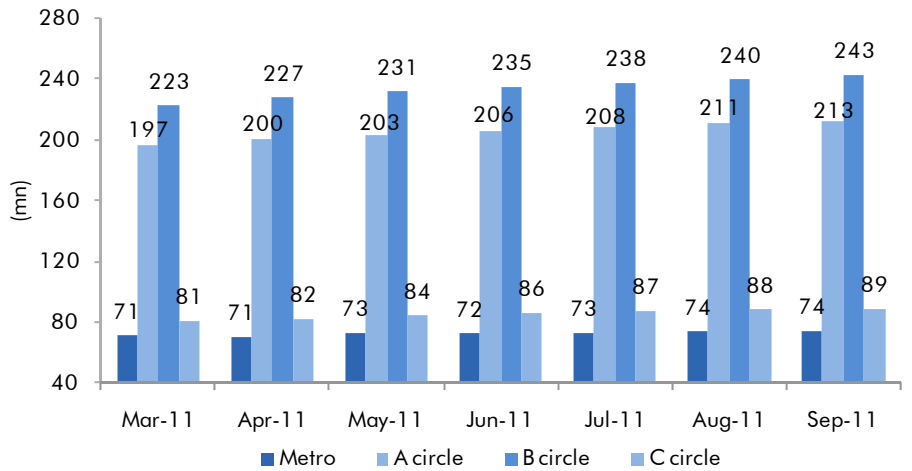
In September 2011, net addition run rate of all circles (except A circle) improved. Circle B reported the highest net addition run rate, which reported addition of 3.2mn subscribers, up 60.7% mom, from 2.0mn in August 2011, taking its total subscriber base to 242.7mn. This led to an increase in net subscriber addition market share of B circle to 48.7% from 37.0%.

For September 2011, in the Metro circle, 0.6mn subscribers were added, up 44.3% mom, taking its total subscriber base to 74.1mn. In this circle, Aircel reported the highest net addition of 0.16mn subscribers, followed by Idea, Vodafone and Bharti, which reported 0.15mn, 0.13mn and 0.09mn net subscriber additions, respectively.

Subscriber addition run rate of A circle declined by 16.4% mom to 1.9mn in September 2011 as against 2.3mn in August 2011, taking its total subscriber base to 212.8mn. In A circle, Idea reported the highest net subscriber addition of 0.48mn subscribers, followed by Uninor, Bharti, BSNL, Vodafone and Aircel, which added 0.35mn, 0.32mn, 0.31mn, 0.27mn and 0.26mn subscribers, respectively.

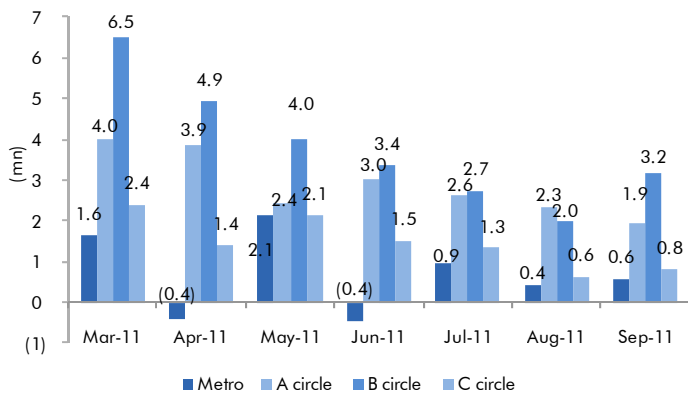
Subscriber addition in C circle stood at 0.8mn in September 2011 from 0.6mn in August 2011, taking its total subscriber base to 88.7mn.

Exhibit 9: GSM subscriber base – Circle wise



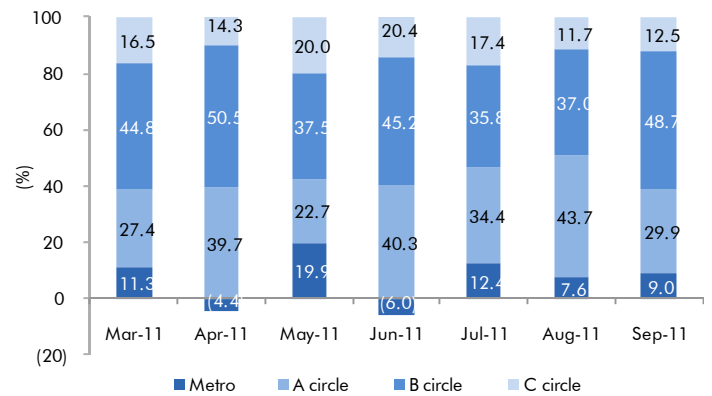
Source: Company, Angel Research

Exhibit 10: Circle-wise subscriber net additions



Source: Company, Angel Research

Exhibit 11: Circle-wise share of net additions



Source: Company, Angel Research

Valuation

For Bharti and Idea, such a decline in net subscriber additions was along expected lines, thus our estimates remain unchanged. The driving force for the overall sector is higher tariff rates as well as increasing use of value-added services, which will lead to higher ARPUs for all players, thereby aiding profitability. Bharti continues to be a better bet due to its low-cost integrated model (owned tower infrastructure), potential opportunity to scale up in Africa, established leadership in revenue and subscriber market share and relatively better KPIs. However, overall **we remain Neutral on the telecom sector.**

Research Team Tel: 022 - 3935 7800

E-mail: research@angelbroking.com

Website: www.angelbroking.com

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Idea Cellular	No	No	No	No
RCom	No	No	No	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Returns):

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Reduce (-5% to 15%)

Accumulate (5% to 15%)

Sell (< -15%)

Neutral (-5 to 5%)

6th Floor, Ackruti Star, Central Road, MIDC, Andheri (E), Mumbai- 400 093.

Tel: (022) 39357800

Research Team

Fundamental:

Sarabjit Kour Nanra	VP-Research, Pharmaceutical	sarabjit@angelbroking.com
Vaibhav Agrawal	VP-Research, Banking	vaibhav.agrawal@angelbroking.com
Shailesh Kanani	Infrastructure	shailesh.kanani@angelbroking.com
Srishti Anand	IT, Telecom	srishti.anand@angelbroking.com
Bhavesh Chauhan	Metals & Mining	bhaveshu.chauhan@angelbroking.com
Sharan Lillaney	Mid-cap	sharanb.lillaney@angelbroking.com
V Srinivasan	Research Associate (Cement, Power)	v.srinivasan@angelbroking.com
Yaresh Kothari	Research Associate (Automobile)	yareshb.kothari@angelbroking.com
Shrinivas Bhutda	Research Associate (Banking)	shrinivas.bhutda@angelbroking.com
Sreekanth P.V.S	Research Associate (FMCG, Media)	sreekanth.s@angelbroking.com
Hemang Thaker	Research Associate (Capital Goods)	hemang.thaker@angelbroking.com
Nitin Arora	Research Associate (Infra, Real Estate)	nitin.arora@angelbroking.com
Ankita Somani	Research Associate (IT, Telecom)	ankita.somani@angelbroking.com
Varun Varma	Research Associate (Banking)	varun.varma@angelbroking.com
Saurabh Taparia	Research Associate (Cement, Power)	Sourabh.taparia@angelbroking.com

Technical:

Shardul Kulkarni	Sr. Technical Analyst	shardul.kulkarni@angeltrade.com
Sameet Chavan	Technical Analyst	sameet.chavan@angelbroking.com

Derivatives:

Siddarth Bhamre	Head - Derivatives	siddarth.bhamre@angeltrade.com
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Institutional Sales Team:

Mayuresh Joshi	VP - Institutional Sales	mayuresh.joshi@angeltrade.com
Meenakshi Chavan	Dealer	meenakshis.chavan@angeltrade.com
Gaurang Tisani	Dealer	gaurangp.tisani@angeltrade.com
Akshay Shah	Dealer	akshayr.shah@angelbroking.com

Production Team:

Simran Kaur	Research Editor	simran.kaur@angeltrade.com
Dilip Patel	Production	dilipm.patel@angeltrade.com