

# Tele-talk

Monthly Telecom Update-November 2007

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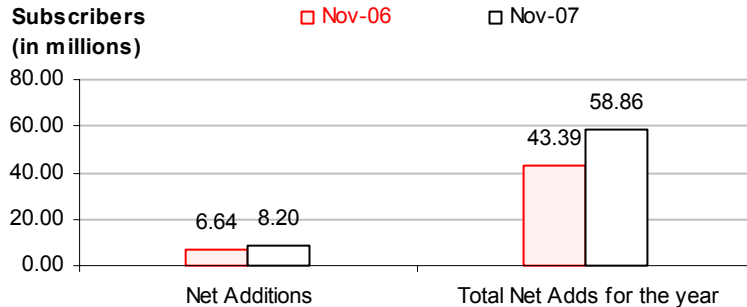
19 December 2007

# Key highlights for the month

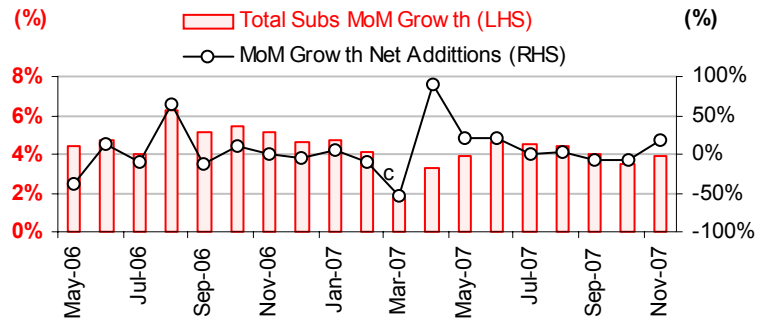
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- The wireless mobile subscriber base grew by 3.9% MoM, and 59% YoY in November, 2007 to touch 216.3mn.
- Net adds in November 2007 were 8.2mn subscribers, an increase of 16.8% MoM and 23.6% YoY .
- Bharti added 2.05mn subscribers in November 2007, maintaining its net addition rate above the highly coveted 2mn mark.
- BSNL and MTNL continued to under perform the market adding only 912k and 63k subscribers respectively. Although, BSNL added only 912k subscribers, there is a marked improvement in its performance from a 12 month low of 238k in May 2007. However, it is still far off from its all time high of 1.98mn subscribers in March 2007
- Vodafone Essar added 1.37mn subscribers taking its subscriber base to 38.6mn. Vodafone-Essar has already overtaken BSNL and has inched very close to RCOM at 39.4mn subscribers.
- Idea and TTSL continued their robust performance adding 800k and 820k subscribers respectively

## Net additions for November 2007



## Mom total growth V/s Net adds Mom



Source: Religare Institutional Equity Research

- Net additions grew by 23.6% YoY to 8.2mn.
- YTD net additions were up 35% YoY, on the back of higher coverage and aggressive customer offerings, like Bharti's super lifetime validity plan.
- The current subscriber base at 216mn is 59% higher on a YoY basis.
- Net additions were higher MoM by 16.8%.
  - All the private operators have reported robust numbers with Bharti maintaining its net addition rate above 2mn and TTSL showing a significant improvement of 16.7% MoM adding 820k subscribers.
  - The state owned operators were the laggards. BSNL is still far off from its all time high but its performance is improving MoM. BSNL added 912k subscriber an improvement of 25% MoM.

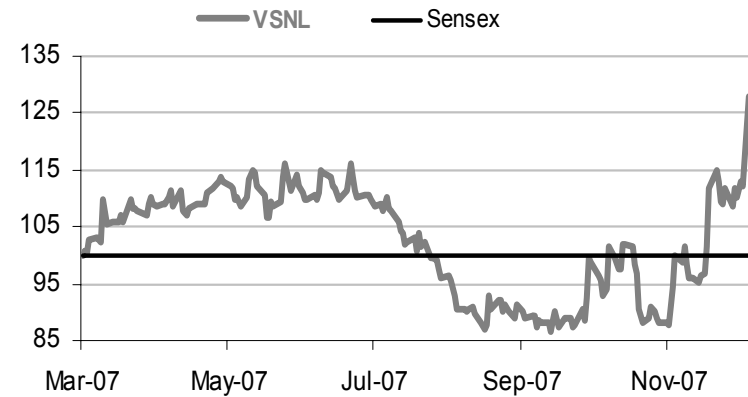
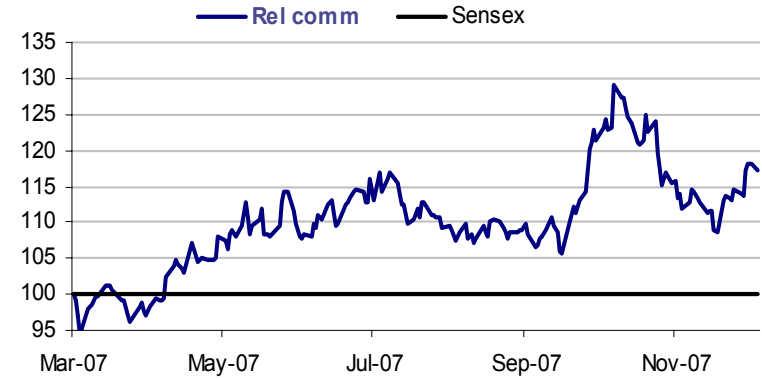
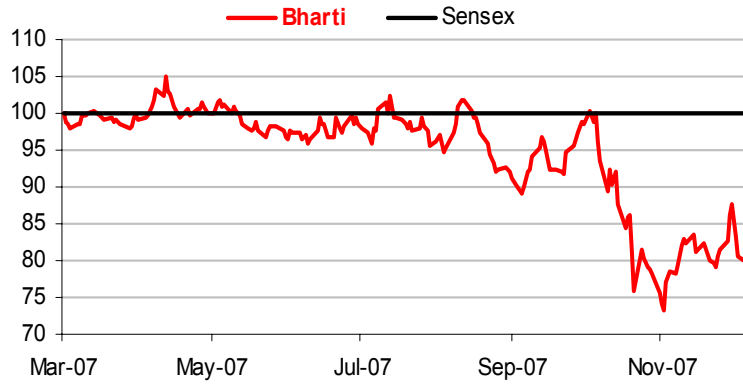
## The key developments for the sector in November 2007 are

- Wireless operators added 8.2mn subscribers in the month of November. They have been able to maintain a healthy net addition rate, between 7-8mn in the last six months.
- Regulatory activity remained very high with the ongoing tussle between the DoT and COAI over spectrum allocation norms. The final verdict on spectrum allocation norms is still awaited but tightening of allocation norms seems more likely.
- Flag Telecom, RCOM's subsidiary and Glass House inked a landmark to set up Infrastructure operating centre in India. Flag will also launch a new suite of managed hosting services and jointly develop New Storage services.

## New product offerings during the month are

- Bharti launched super life time validity plan. The plan has a very simplified tariff structure with lower local calling rates. We expect this plan to do really well in the market.
- RCOM's handset offers remained unchanged in the month of November with colour handsets starting from Rs 999 and monochrome handsets starting from Rs 777.

# Performance charts



Source: Religare Institutional Equity Research

# Relative Stock performance

Relative to Sensex

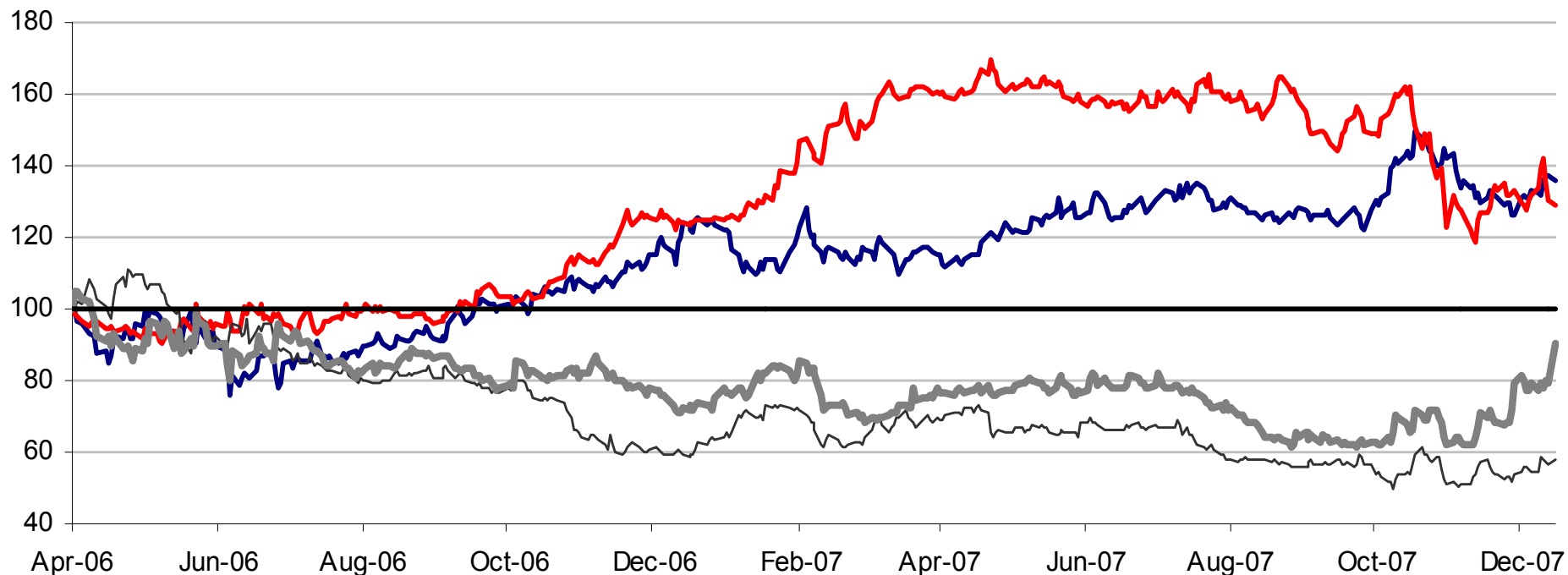
— Rel comm

— Bharti

— MTNL

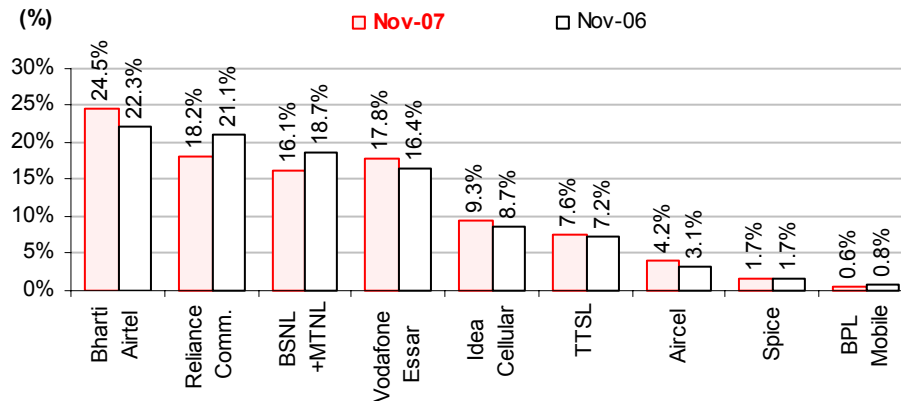
— VSNL

— Sensex



Source: Religare Institutional Equity Research

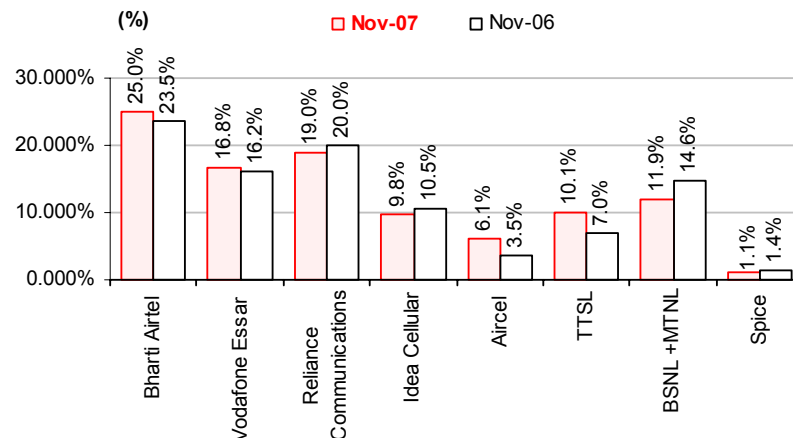
## Operator Market share



Source: Religare Institutional Equity Research

- Bharti-Airtel remains the undisputed leader with a wireless market share of 24.5%, with RCOM a distant second at 18.2%.
- RCOM has lost market share by 290bps YoY
- BSNL+MTNL have lost market share by 260bps YoY.
- Idea Cellular has gained market share by 60bps YoY.
- Vodafone Essar has gained market share by 140bps YoY

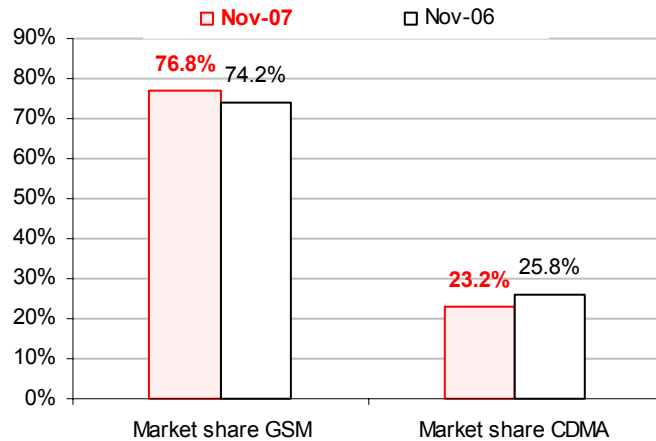
## Operator wise Net adds Market share



Source: Religare Institutional Equity Research

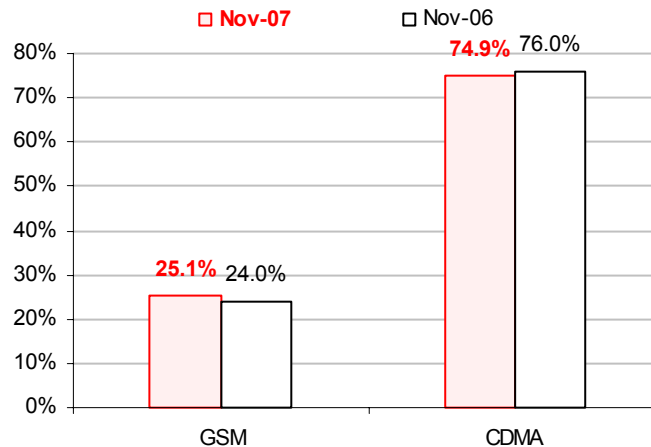
- Bharti had the highest share of net adds at 25%, higher than the 23.5% in November 06.
- TTSL has shown a marked improvement in its net addition market share. TTSL's net addition share was 10.1% in Nov 2007 which was much higher than 7% in November 2006
- The losers were the state owned MTNL+BSNL.

## Technology market share



- The GSM market share at the end of November 2007 was 260bps higher YoY at 76.8%
- RCOM lost market share because of subscriber reverification, which led to the GSM operators gaining.
- We see that the private GSM operators have been much more consistent in adding subscribers as they have a wider target market compared to the CDMA operators.
- We expect GSM to remain the dominant technology in the Indian market.

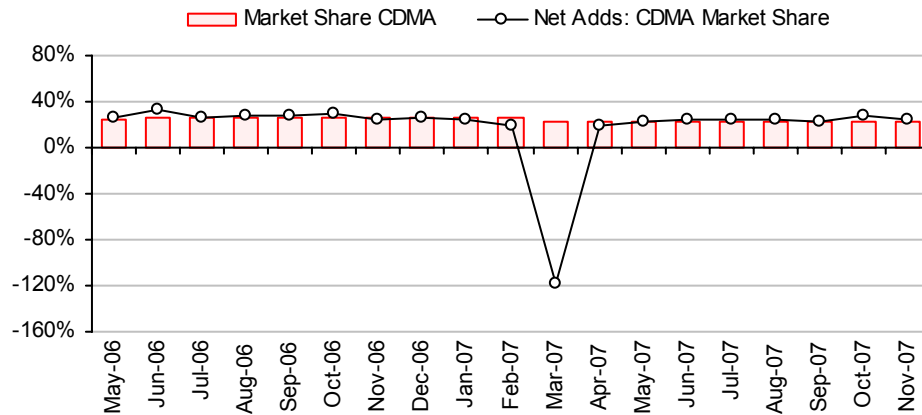
## Net adds Technology wise Mkt. share



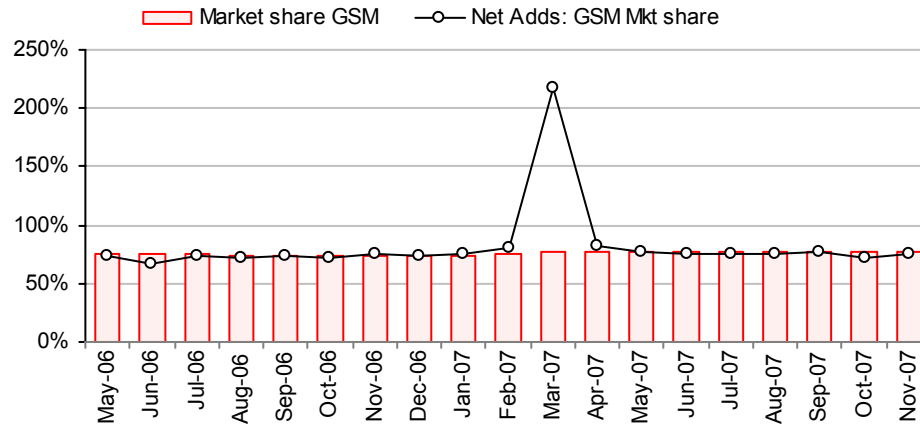
Source: Religare Institutional Equity Research



## CDMA: Market Share V/s Net Adds Mkt. Share



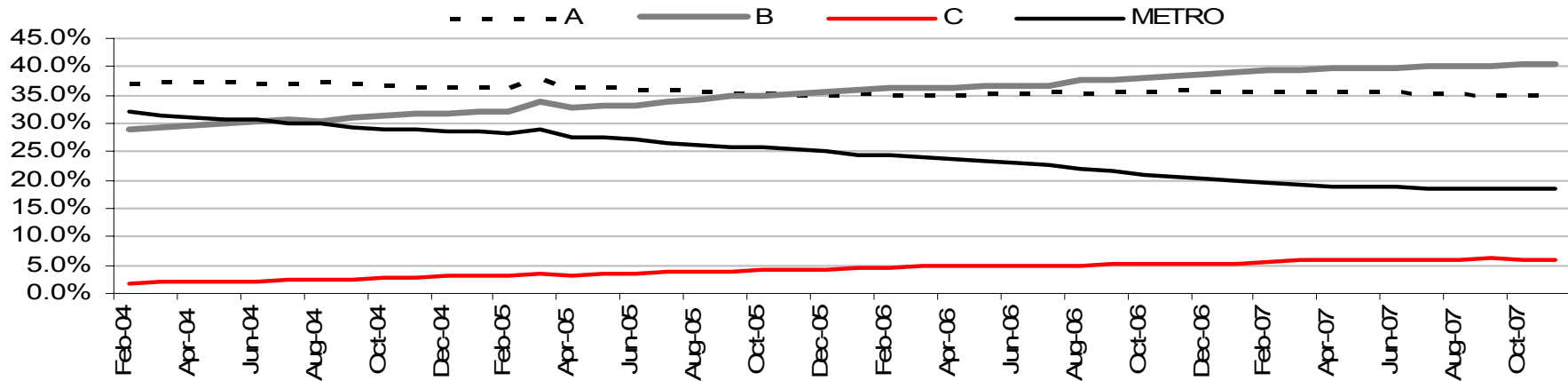
## GSM: Market share V/s Net additions Mkt share



Source: Religare Institutional Equity Research

- CDMA operators gained market share in 8 of the last 12 months.
- The key reasons for this are
  - RCOM and TTSL have embarked upon a aggressive network coverage plan for FY08.
  - RCOM's network coverage had stagnated at ~50% in FY07. RCOM plans to cover 85% of India's population by the end of FY08.
  - Higher network coverage backed with aggressive handset offers have helped the CDMA operators to consolidate their market share which had come down substantially after the reverification exercise.

## The smaller cities are driving growth

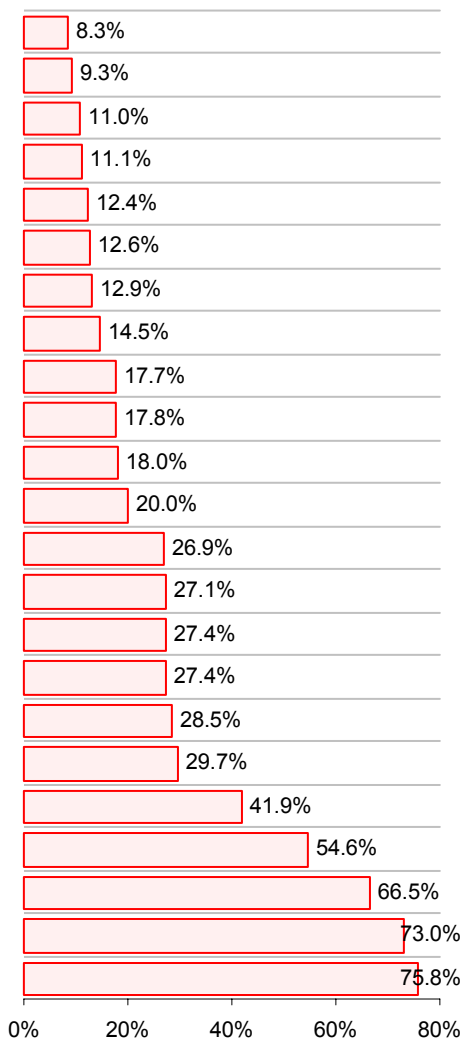


Source: Religare Institutional Equity Research

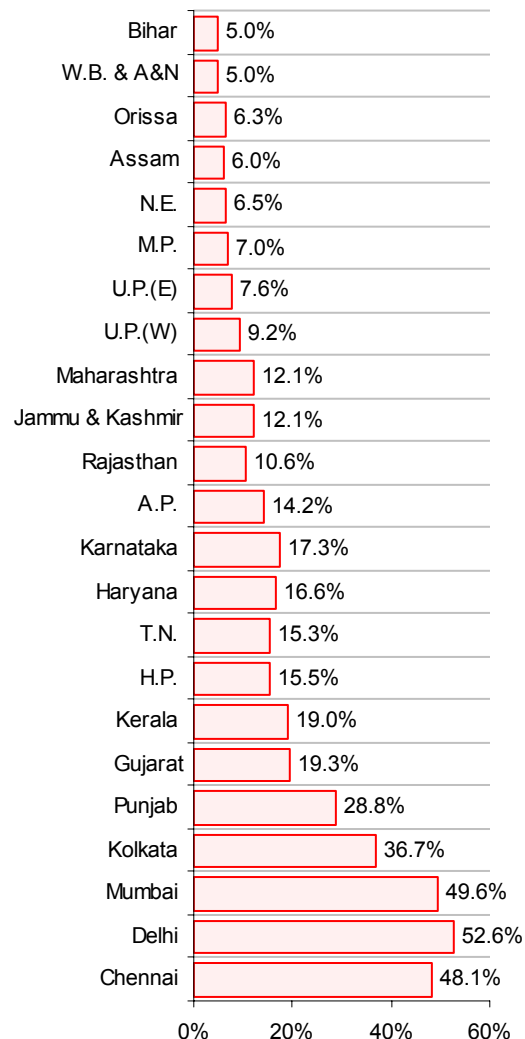
- The share of net additions from the metros has been falling over the last one year and has come down from 23% to 18%.
- Category B and C circles are driving growth with a bulk of the net additions coming from these categories.
- Category B circles like UP West and East and Bihar have a high population density. With the enhancement in the network coverage, this category has picked up and is currently at par with category A circles in terms of market share
- Category C circles like the North East and Himachal have improved their market share, but network coverage remains low especially in the North East, HP and Orissa.

# Circlewise Wireless Teledensity

Teledensity as on Nov 2007



Teledensity as on Nov 2006

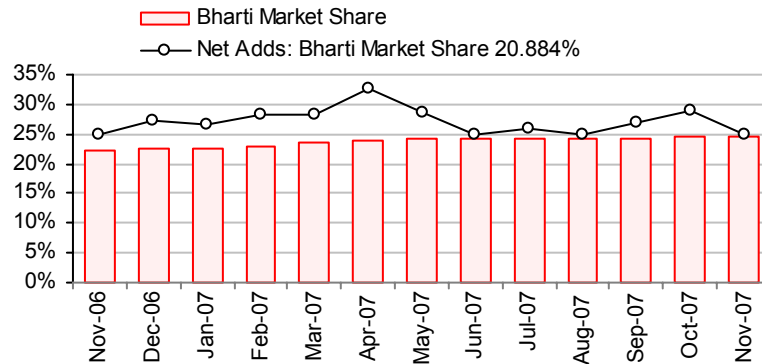


- Mumbai has lost its position as the circle with the highest wireless teledensity to Chennai and Delhi over the last 15 months.
- Delhi currently has the second highest teledensity.
- Bihar has the second highest population and has the lowest teledensity- a clear long term opportunity for operators to garner subscribers.
- A closer look at the chart shows that circles with substantial population density like Bihar and UP East have low wireless teledensity. This is because here, the network roll out has not been as fast as in category A circles like AP, Karnataka and Tamilnadu .The core reason for this is the lower purchasing power in these circles.
- Metros, with a wireless teledensity of over 60% will see a slowdown in the near future and smaller towns will be the key growth drivers

Source: Religare Institutional Equity Research

# Companies

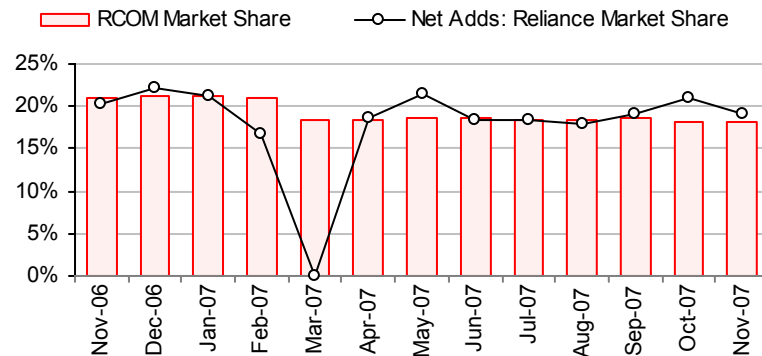
## Bharti: Market share Vs Net Adds Share



Source: Religare Institutional Equity Research

- Bharti has gained market share in each of the last 12 months.
- Bharti has consistently increased its network coverage and currently has the highest network coverage in the country ~63%.
- Bharti added 2.05mn subscribers in November 2007 to maintain its netaddition rate above the 2mn mark. Bharti launched super lifetime validity plan in November 2007. We expect this plan to do well in the forthcoming months.

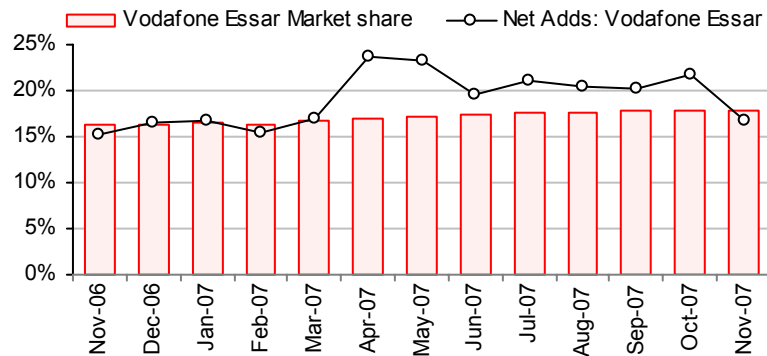
## RCOM: Market share Vs Net Adds Mkt share



Source: Religare Institutional Equity Research

- RCOM has gained market share in 7 out of the last 12 months.
- RCOM had a strong net addition rate in the last 3 months on the back of aggressive handset offering and network coverage.
- RCOM has also introduced SIM enabled and FM handsets which will help it in increasing netadds.
- RCOM also has aggressive network coverage plan for FY08. We expect RCOM to sustain this net addition rate on the back of aggressive coverage and better customer offers.

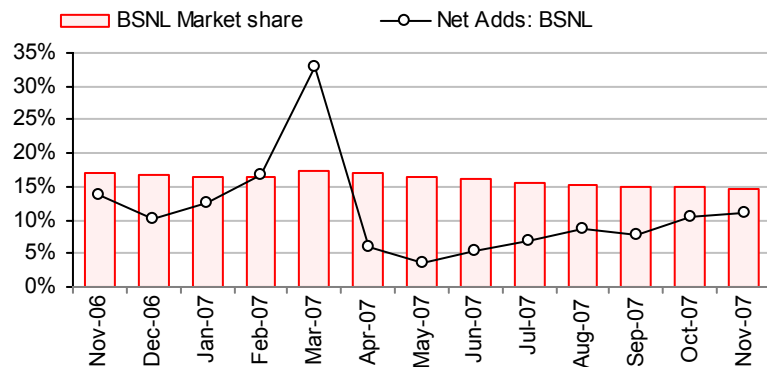
## Vodafone Essar: Market share Vs Net Adds Mkt share



Source: Religare Institutional Equity Research

- Vodafone-Essar gained share in 10 of the last 12 months.
- Vodafone-Essar has shown a marked improvement in the net add market share in the last 4 months on the back of aggressive marketing campaigns, network coverage and sales schemes
- Currently Vodafone-Essar is the second largest GSM operator and has inched very close to RCOM. Vodafone-Essar has a current market share of 17.8%

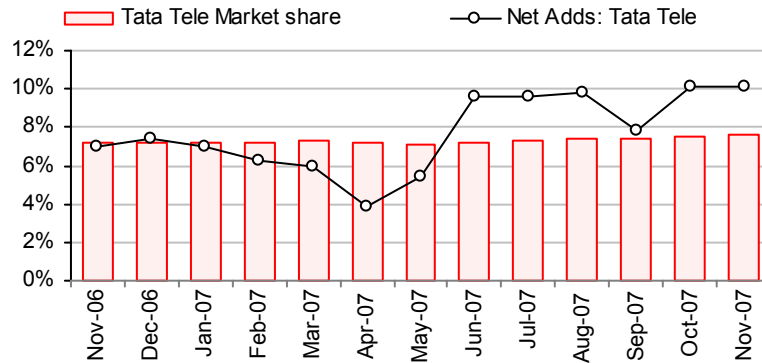
## BSNL: Market Share Vs Net Adds Mkt share



Source: Religare Institutional Equity Research

- BSNL has done poorly in the last 12 months and lost market share in 11 of the last 12 months.
- BSNL currently has a capacity of 20.5mn GSM lines against a subscriber base of 31.9mn.
- Although, BSNL's performance is improving MoM in the last six months, we believe this has mainly been on account of the award of trial spectrum to BSNL.
- BSNL is close to awarding a GSM tender for 23mn lines. We expect BSNL's to perform according to its potential add 1.5mn subscribers per month only after capacity augmentation.

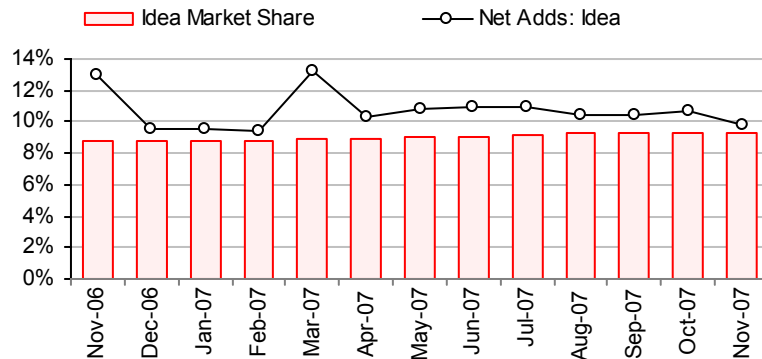
## TTSL: Market share Vs Net Adds Mkt share



Source: Religare Institutional Equity Research

- TTSL has gained market share in the last 7 of the 12 months.
- TTSL's advertisement campaign emphasizing its network quality seems to have paid dividends.
- We expect TTSL to report strong numbers in the forthcoming months on account of the continuance of its low priced handset offers and enhanced coverage.

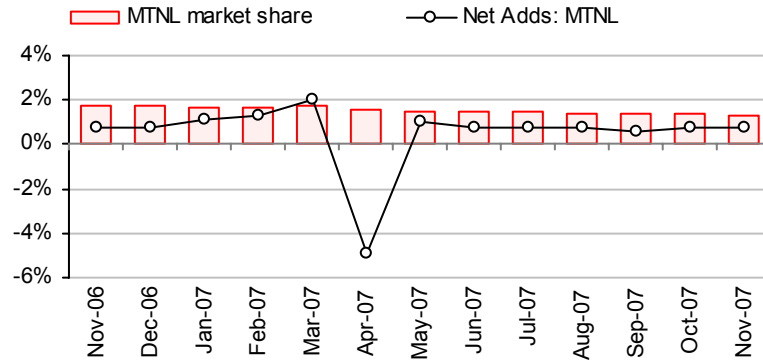
## Idea: Market share Vs Net Adds Mkt share



Source: Religare Institutional Equity Research

- Idea Cellular has consistently gained share in each of the last 12 months. The key reason is the improvement in its network coverage and aggressive marketing.
- We expect Idea to have the fastest growth among the wireless operators as it enters new circles and continues to strengthen its network.

## MTNL: Market share Vs Net Adds Mkt share



Source: Religare Institutional Equity Research

- The contribution of the metros in net additions is decreasing and this has impacted MTNL.
- MTNL added 63k subscribers in the month of November 2007.

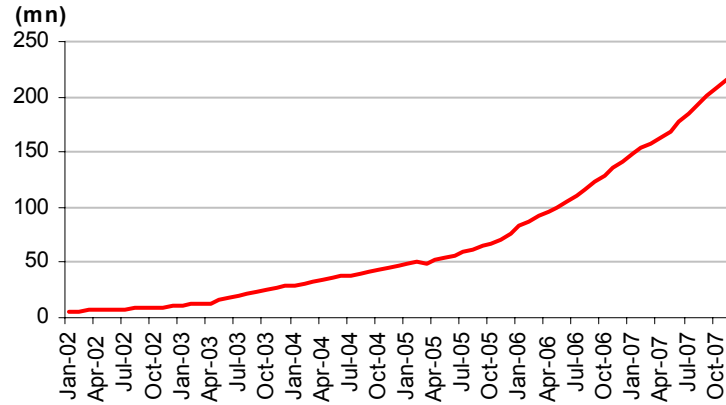


# Valuation Matrix

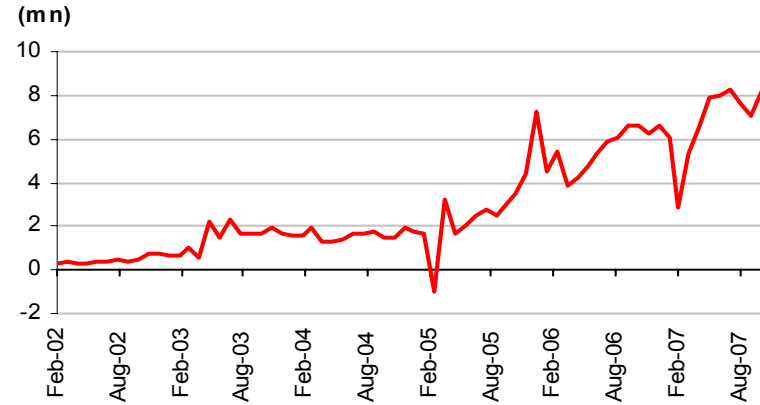
Telecommunications	Price (Rs)	Rating	Market Cap (Rs bn)	EPS		P/E (x)		EV/EBITDA (x)		EBITDA margins (%)		P/BV	
				FY08E	FY09E	FY08E	FY09E	FY08E	FY09E	FY08E	FY09E	FY08E	FY09E
RCOM	711	Hold	1,466	22.1	27.6	32.2	25.7	20.3	14.7	41.2	42.1	5.6	4.6
Bharti Airtel	907	Hold	1,722	34.2	47.4	26.5	19.1	15.2	11.5	42.8	43.3	8.5	6.2
Idea Cellular	130	Reduce	342	4.2	4.9	31.0	26.5	18.5	13.3	33.3	33.4	10.2	7.5
VSNL	714	Hold	203	16.1	18.7	44.3	38.2	21.3	18.0	22.0	25.5	3.1	2.9

Source: Religare Institutional Equity Research, Bloomberg consensus estimates

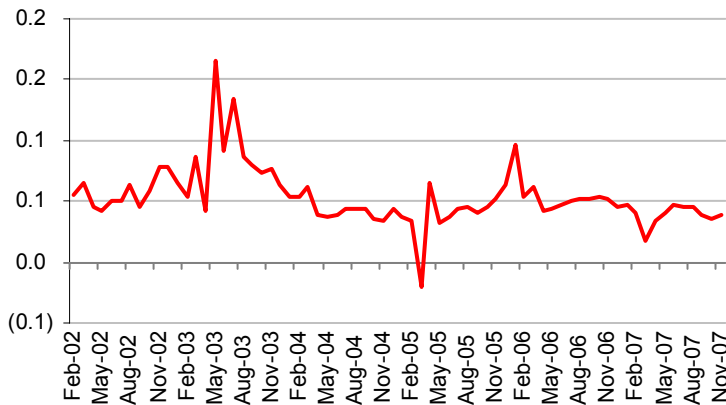
## Subscribers base



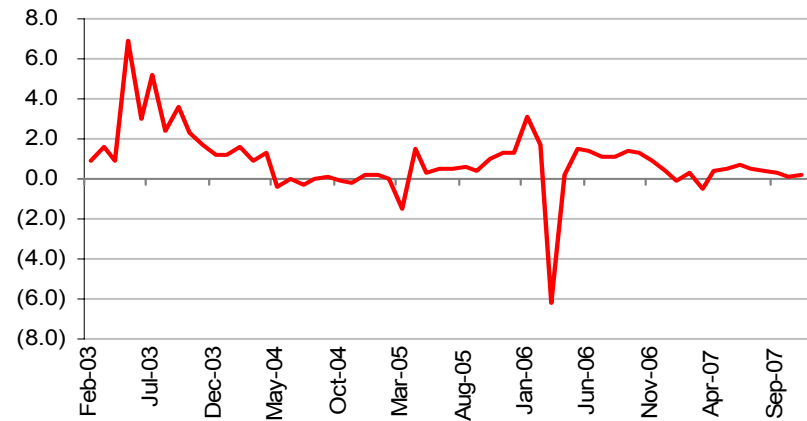
## Net Addition



## MoM Subscriber base

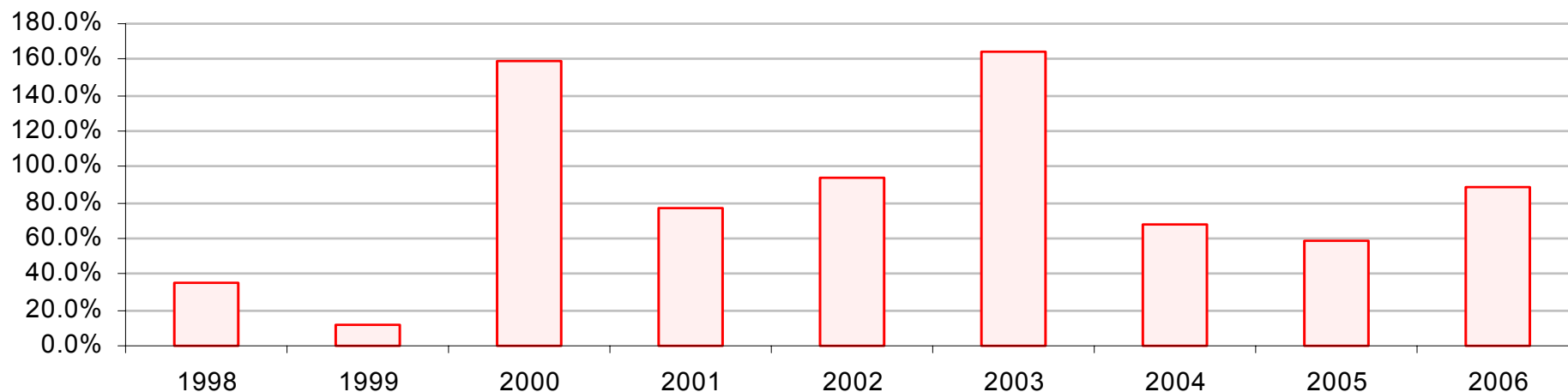


## YoY N Adds



Source: Religare Institutional Equity Research

## Subscriber growth



- The wireless mobile subscriber base has grown from 7.98mn in Jan 2002 to 216mn in Nov 2007. This is a CAGR of 81.72%
- This exponential growth was driven by falling handset prices and tariffs by the operators.
- The average MoM growth in the wireless subscriber base for the period Jan 2002 to Feb 2007 is 5.57%. This growth peaked at 16.54% in May 2003 and was driven by RCOM's 'Rs501 Monsoon Hungama offer'. This was a unique financing scheme by RCOM in which one could buy an LG2030 or SamsungN191 B&W handset with a connection by paying only Rs501 and rest of the amount could be paid through EMI's of Rs300 over 3 years.
- The MoM growth bottomed out in Mar 2005 at -2.04% when RCOM disconnected ~0.8mn subscribers due to non-payment of bills. These subscribers were largely acquired during the 'Rs501 Monsoon Hungama offer'.

- Wireless mobile net additions have increased from 0.317mn in Feb 2002 to 8.2mn in November 2007.
- The exponential growth in subscriber net additions is because of falling handset prices and reduction in tariffs by the operators. In Jan 2002 the entry level handset (Nokia 3310) was priced at ~Rs6,500. The current entry level handset Classic 202 is priced at Rs777, the drop in handset prices for entry level models has been ~90%.
- MoM net additions for the period Feb 2002 to June 2007 has displayed high volatility with a peak of 304% in May 2003 to an all-time-low of -162% in Mar 2005.
- The high peak and the low trough were courtesy RCOM's 'Rs501 Monsoon Hungama offer'. Peak was on introduction of the offer, and bottom, when a substantial number of 501-customers were deleted from the database due to non payment of bills.

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**Rating definition**

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<b>Buy</b>	:	> 15% returns relative to Sensex	<b>Reduce</b>	:	Upto (-) 15% returns relative to Sensex
<b>Accumulate</b>	:	Upto + 15% returns relative to Sensex	<b>Sell</b>	:	> (-)15% returns relative to Sensex

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