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India: Telecom Services

GSM net adds >10 mn in Jan-09? RCOM's net adds keenly awaited

Ex-RCOM reported GSM net adds at record high 9.3 mn in Jan-09

Assuming 386k net adds for RCOM in its existing 8 service areas (i.e. excluding net adds in its newly launched areas), India added at least 9.7 mn GSM net adds in Jan-09; overall GSM subs as of Jan-09 subs stood at 268 mn (up 3.8% sequentially). Growth in net adds was significantly high for BSNL/IDEA (50%/32% sequential rise in net adds). In our view, drop in upfront payment for lifetime talk plans is likely to have aided higher subs addition. With RCOM yet to report Jan-09 net adds, our Mar-09 GSM subs forecast (282.6 mn) for the country appears easily achievable.

BRTI's net adds flat at 2.7 mn, share of net adds slips below 30%

Half of BRTI's Jan-09 net adds came from category B&C service areas (down from 55% in Dec-08); share of net adds in Category C areas, dipped from 21% in Dec-08 to 16% in Jan-09. At 93.8 mn, our Mar-09 wireless subs forecast for BRTI implies about 5.4 mn net adds in Feb/Mar-09.

IDEA-Spice captured about 20% of GSM net adds in Jan-09

Trebling of net adds in Mumbai (IDEA captured about 60% of ex-RCOM net adds), and a 100%-plus rise in net adds in Madhya Pradesh & Bihar saw IDEA-Spice adding 2 mn net adds in Jan-09. At 38.1 mn, our Mar-09 wireless subs forecast for IDEA (ex-Spice) implies about 2.1 mn net adds in Feb/Mar-09, which appears easily achievable.

VOD-Essar posts record high net adds; strong showing by MTNL

VOD-Essar added 2.4 mn subs, but its share of net adds slipped below the 25% mark. MTNL added 104k subs in Jan-09, highest since Mar-08.

Maintain BRTI on C. Buy list; RCOM/IDEA/MTNL rated Neutral

Key risks: BRTI – (1) Intensifying competition leads to sub-par KPIs, (2) Adverse regulatory developments. IDEA – (1) Margins are subdued for a long period on the back of new rollouts, (2) Non-compelling valuation multiples. RCOM – (1) sub-par wireless KPIs, (2) poor external tenancy on towerco. MTNL – (1) Potential 'cash burn', loss at EBITDA level.

Note: RCOM's GSM subs data typically lags the COAI data release by 7-10 days. For a more representative picture of GSM net adds during the month, our analysis includes RCOM's estimated Dec-08 GSM net adds at 386k (its previous two months' average net adds in 8 existing circles i.e. excluding 14 newly launched operations). Jan-09 data released by COAI pegs all-India GSM subs at 267.5 mn implying 9.3 mn net adds during the month.

WIRELESS TELCOS – VALUATION SNAPSHOT

Company	BRTI	RCOM	IDEA	MTNL
Ticker	BRTI.BO	RLCM.BO	IDEA.BO	MTNL.BO
Rating	Buy*	Neutral	Neutral	Neutral
Current Price (Rs)	662.8	171.7	45.1	70.6
12-mth Target Price (Rs)	800.0	170.0	51.0	75.0
Upside/Downside	20.7%	-1.0%	13.1%	6.2%
FY10E				
Revenue Growth	19.7%	20.4%	31.3%	-0.7%
EBITDA Growth	15.0%	18.1%	28.4%	-3.7%
EBITDA Margin	39.8%	38.0%	26.9%	8.5%
Earnings Growth	10.0%	-34.7%	10.5%	5.0%
EPS (Rs) (Basic)	49.48	17.23	2.98	3.45
P/E	13.4	10.0	15.2	20.5
EV/EBITDA	7.6	6.3	7.5	NM

* Denotes stock is on our Conviction list.

NOTE: Our 12-mth target prices are based on DCF valuation; closing prices as of 10-Feb-09. Source: Datastream, Goldman Sachs Research estimates.
Key risks: BRTI – (1) Intensifying competition leads to sub-par KPIs, (2) Adverse regulatory developments. IDEA – (1) Margins are subdued for a long period on the back of new rollouts, (2) Non-compelling valuation multiples. RCOM – (1) sub-par wireless KPIs, (2) poor external tenancy on towerco. MTNL – (1) Potential 'cash burn', loss at EBITDA level.

In '000s	Subscribers		Net Adds	Implied RR*
	Jan-09	FY09E	Jan-09	FY09E
BRTI	88,383	93,752	2,732	2,685
IDEA	36,064	38,120	1,853	1,028
RCOM	10,739	12,159	386	710
VOD-Essar	63,340	67,232	2,407	1,946
BSNL	42,673	42,794	1,312	60
MTNL	4,004	4,097	104	46
Others	22,721	24,458	895	854
Total GSM	**267,924**	**282,612**	**9,689**	**7,344**

*Implied monthly net adds to reach our FY09E subs target.
Source: COAI, TRAI, Goldman Sachs Research estimates

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Exhibit 1: Reported GSM net adds (excl. RCOM) at a record high 9.3 mn in Jan-09; GSM subs base at 267.5 mn subs
Category B&C service areas accounted for ~57% of Jan-09 GSM net adds

(Subs in '000)	BRTI	VOD-Essar	BSNL	IDEA	Aircel	RCOM	Spice	MTNL	BPL	Total	Penetration
GSM Subs - Jan 09	**88,383**	**63,340**	**42,673**	**36,064**	**16,761**	**10,739**	**3,952**	**4,004**	**2,007**	**267,924**	**(%)**
GSM Market share (%)	**33.0%**	**23.6%**	**15.9%**	**13.5%**	**6.3%**	**4.0%**	**1.5%**	**1.5%**	**0.7%**	**100%**	**23.2%**
Metro	**11,825**	**12,271**	**2,250**	**2,911**	**2,830**	**654**	**-**	**4,004**	**2,007**	**38,752**	**58.8%**
Chennai	2,088	1,508	1,014		2,385	-				**6,996**	**93.3%**
Delhi	4,573	3,920		2,307		-		1,868		**12,669**	**59.4%**
Kolkata	2,401	2,609	1,236		445	654				**7,345**	**43.1%**
Mumbai	2,762	4,234		604		-		2,135	2,007	**11,742**	**58.5%**
Circle A	**33,466**	**23,811**	**13,353**	**15,543**	**7,445**	**-**	**1,573**	**-**	**-**	**95,191**	**27.4%**
Andhra Pradesh	8,593	3,666	2,873	4,802		-				**19,934**	**24.4%**
Gujarat	3,931	7,603	2,375	3,701		-				**17,611**	**30.6%**
Karnataka	9,601	3,482	2,089			-	1,573			**16,745**	**28.9%**
Maharashtra	5,545	4,226	3,332	7,040		-				**20,143**	**22.2%**
Tamil Nadu	5,796	4,834	2,684		7,445	-				**20,758**	**34.7%**
Circle B	**28,878**	**26,515**	**20,560**	**16,950**	**1,046**	**3,561**	**2,379**	**-**	**-**	**99,890**	**19.5%**
Haryana	1,238	2,082	1,408	1,485		-				**6,212**	**27.8%**
Kerala	2,114	2,901	2,383	4,079		-				**11,477**	**34.1%**
Madhya Pradesh	4,331	175	2,356	4,630		2,372				**13,864**	**15.1%**
Punjab	3,714	2,081	2,584			-	2,379			**10,758**	**38.2%**
Rajasthan	6,410	4,739	2,702	1,201		-				**15,052**	**23.0%**
Uttar Pradesh (East)	5,552	6,091	5,212	1,804		-				**18,659**	**14.2%**
Uttar Pradesh (West)	2,198	4,091	2,244	3,752		-				**12,286**	**18.3%**
West Bengal and A&N Isl.	3,321	4,354	1,671		1,046	1,189				**11,582**	**16.0%**
Circle C	**14,214**	**743**	**6,509**	**660**	**5,440**	**6,524**	**-**	**-**	**-**	**34,091**	**14.9%**
Assam	1,353	91	803		1,597	1,398				**5,242**	**17.8%**
Bihar	6,852	328	2,340	530	1,306	2,718				**14,074**	**11.1%**
Himachal Pradesh	938	17	693	131	123	689				**2,590**	**38.7%**
North East	843	73	589		937	466				**2,907**	**21.0%**
Orissa	2,711	233	1,252		809	1,253				**6,259**	**15.6%**
J&K	1,518		833		668	-				**3,019**	**25.7%**

Note: Penetration figures refer to GSM penetration only. See note on RCOM's estimated subs base below

Source: COAI, TRAI, Goldman Sachs Research estimates.

Exhibit 2: Jan-09: BSNL, IDEA and VOD-Essar post smart rise in net adds; BRTI's net adds stagnant at 2.7 mn
IDEA (together with Spice) captured over 20% share of net adds, BRTI's share of net adds dips below 30% (last in Mar-07)

	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09
GSM subs ('000s)													
Bharti	57,418	59,670	61,985	64,370	66,826	69,384	72,078	74,778	77,479	80,200	82,921	85,651	88,383
VOD-Essar	41,145	42,557	44,126	45,780	47,467	49,195	50,950	52,759	54,625	56,704	58,764	60,933	63,340
BSNL	33,749	34,573	36,210	36,683	36,997	37,363	37,916	38,490	39,167	39,836	40,488	41,362	42,673
Idea	21,955	22,874	24,002	25,040	26,141	27,194	28,248	29,278	30,380	31,583	32,810	34,211	36,064
RCOM	6,338	6,676	7,016	7,359	7,711	8,080	8,455	8,831	9,206	9,583	9,964	10,354	10,739
MTNL	3,013	3,122	3,242	3,284	3,350	3,438	3,537	3,639	3,678	3,744	3,821	3,900	4,004
Others	15,133	15,546	16,116	16,666	17,321	17,851	18,113	18,207	19,142	20,104	20,963	21,825	22,721
Total GSM subs	**178,751**	**185,017**	**192,696**	**199,182**	**205,812**	**212,505**	**219,298**	**225,983**	**233,677**	**241,754**	**249,730**	**258,236**	**267,924**
Market share of GSM subs													
Bharti	32.1%	32.3%	32.2%	32.3%	32.5%	32.7%	32.9%	33.1%	33.2%	33.2%	33.2%	33.2%	33.0%
VOD-Essar	23.0%	23.0%	22.9%	23.0%	23.1%	23.2%	23.2%	23.3%	23.4%	23.5%	23.5%	23.6%	23.6%
BSNL	18.9%	18.7%	18.8%	18.4%	18.0%	17.6%	17.3%	17.0%	16.8%	16.5%	16.2%	16.0%	15.9%
Idea	12.3%	12.4%	12.5%	12.6%	12.7%	12.8%	12.9%	13.0%	13.0%	13.1%	13.1%	13.2%	13.5%
RCOM	3.5%	3.6%	3.6%	3.7%	3.7%	3.8%	3.9%	3.9%	3.9%	4.0%	4.0%	4.0%	4.0%
MTNL	1.7%	1.7%	1.7%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.5%	1.5%	1.5%	1.5%
Others	8.5%	8.4%	8.4%	8.4%	8.4%	8.4%	8.3%	8.1%	8.2%	8.3%	8.4%	8.5%	8.5%
Monthly GSM net adds ('000s)													
Bharti	2,255	2,253	2,315	2,386	2,456	2,558	2,694	2,700	2,701	2,721	2,721	2,730	2,732
VOD-Essar	1,281	1,412	1,569	1,654	1,686	1,728	1,755	1,808	1,866	2,079	2,061	2,169	2,407
BSNL	1,036	824	1,637	473	314	365	553	574	677	670	651	874	1,312
Idea	901	919	1,128	1,038	1,101	1,054	1,054	1,030	1,102	1,203	1,227	1,401	1,853
RCOM	336	338	340	342	352	370	375	376	376	377	381	390	386
MTNL	58	109	120	42	66	88	100	102	38	66	77	79	104
Others	665	412	570	550	655	530	262	95	935	962	859	862	895
Total additions	**6,531**	**6,266**	**7,680**	**6,486**	**6,630**	**6,693**	**6,793**	**6,685**	**7,694**	**8,077**	**7,977**	**8,505**	**9,689**
Share of monthly GSM net adds													
Bharti	34.5%	35.9%	30.1%	36.8%	37.0%	38.2%	39.7%	40.4%	35.1%	33.7%	34.1%	32.1%	28.2%
VOD-Essar	19.6%	22.5%	20.4%	25.5%	25.4%	25.8%	25.8%	27.1%	24.3%	25.7%	25.8%	25.5%	24.8%
BSNL	15.9%	13.2%	21.3%	7.3%	4.7%	5.5%	8.1%	8.6%	8.8%	8.3%	8.2%	10.3%	13.5%
Idea	13.8%	14.7%	14.7%	16.0%	16.6%	15.7%	15.5%	15.4%	14.3%	14.9%	15.4%	16.5%	19.1%
RCOM	5.1%	5.4%	4.4%	5.3%	5.3%	5.5%	5.5%	5.6%	4.9%	4.7%	4.8%	4.6%	4.0%
MTNL	0.9%	1.7%	1.6%	0.6%	1.0%	1.3%	1.5%	1.5%	0.5%	0.8%	1.0%	0.9%	1.1%
Others	10.2%	6.6%	7.4%	8.5%	9.9%	7.9%	3.9%	1.4%	12.1%	11.9%	10.8%	10.1%	9.2%

Note: RCOM's GSM subs data typically lags the COAI data release by 7-10 days. For a more representative picture of GSM net adds during the month, our analysis includes RCOM's estimated Dec-08 GSM net adds at 386k (its previous two months' average net adds in 8 existing circles i.e. excluding 14 newly launched operations). Jan-09 data released by COAI pegs all-India GSM subs at 267.5 mn implying 9.3 mn net adds during the month.

Source: COAI, TRAI, Goldman Sachs Research Estimates.

Reg AC

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