

Telecoms, Media & Technology
 Wireless Telecoms
 Equity – India

Indian Telecoms

Auction of spectrum in 700MHz may be negative for BWA players

- ▶ **Government may be looking to monetize the 700MHz spectrum; we believe this may not happen for a couple of years**
- ▶ **700MHz band more efficient in terms of costs and coverage**
- ▶ **Auction of this spectrum may be negative for BWA players, particularly Reliance Industries**

News reports (Source: Economic Times) suggest that the government may benefit from sale of spectrum in the 700MHz band. As per the 2011 Indian budget, the government is targeting a fiscal deficit of 4.6% in FY12; as result, it is likely the government may pursue this. The 700MHz band spectrum is more valuable than other available spectrum bands. The band is ideal for providing wireless broadband (data) in low-population-density regions, due to its better propagation characteristics. As the band is lower, it can cover a larger area with fewer base stations, which implies lower capital expenditure. In the US, the 700MHz band is used for LTE. The GSM Association is pursuing the regulators in Europe to make the 700MHz spectrum available for wireless use.

However, we believe the government may find it difficult to monetize the spectrum in the 700MHz band. The Ministry of Information & Broadcasting has rejected a proposal from the DoT to vacate spectrum in the 700MHz band currently used by Doordarshan. Moreover, the stretched balance sheets of most of the present operators will prevent them from being aggressive, we believe, and the lack of a comprehensive regulatory policy may prevent new foreign players from participating. Further, the ecosystem around the 700MHz spectrum is in the initial stages and, given that India is a very price-sensitive market, the government's ability to monetize it would likely be better once equipment supporting the 700MHz spectrum band is available at a cheaper cost. Our view is supported by lower proceeds from the auction of the BWA (broadband wireless access) spectrum (c0.6x of proceeds of 3G spectrum as 3G is a more mature technology). Hence, given the good propagation characteristics of the 700MHz band, we believe the government could raise at least cUSD12.8bn (c1.5x times of proceeds from BWA spectrum auctions) if the auction happens in c2-3 years time.

Implication for Indian telecom players. Given its better propagation characteristics, the release of spectrum in the 700MHz band would be positive for the telecom space, we believe, as it would allow the telcos to provide efficient and cost-effective wireless broadband. That said, this may be negative for BWA players, in particular RIL, which paid cUSD2.8bn to obtain pan-India BWA spectrum. We believe capex for BWA players will be higher versus those which provide wireless broadband in the 700MHz band. Beneficiaries could be Chinese vendors which may push hard for these potential contracts. Given the various challenges around the release of spectrum and prevailing regulatory challenges around the sector, we do not expect the auctions anytime soon and believe the auctions may not happen for at least a couple of years.

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Rajiv Sharma*
 Analyst
 HSBC Securities and Capital Markets
 (India) Private Limited
 +91 22 22681239
 rajivsharma@hsbc.co.in

Tucker Grinnan*
 Analyst
 The Hongkong and Shanghai Banking
 Corporation Limited
 + 852 2822 4686
 tuckergrinnan@hsbc.com.hk

Harbhajan Singh*
 Associate
 Bangalore

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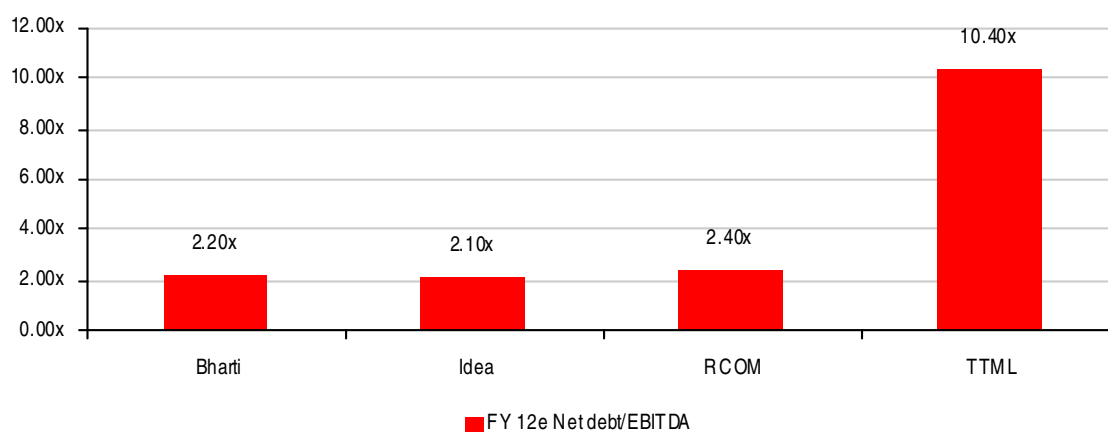
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Figure 1: Stretched balance sheets of Indian telecom operators



Source: HSBC estimates

Figure 2: 3G and BWA payout and price per MHz

3G auctions

Operators	Amt paid (USDm)	Circles bid	MHz	Price per MHz (USDm)
Bharti	2,732	13	130	21
Relaince	1,908	13	130	15
Vodafone	2,582	9	90	29
Idea	1,282	11	110	12
Aircel	1,444	13	130	11
Tata	1,303	9	90	14
Stel	75	3	30	3
BSNL/MTNL	3,722	22	220	17

BWA auctions

Operators	Amt paid (USDm)	Circles bid	MHz	Price per MHz (USDm)
Bharti	737	4	80	9
Aircel	764	8	160	5
Infotel (RIL)	2855	22	440	6
Tikona	235	5	100	2
Qualcomm	1092	4	80	14
Augere	28	1	20	1
BSNL/MTNL	2855	22	440	6

Source: HSBC, TRAI

Figure 3: Upcoming European spectrum auctions

Country	Spectrum release	Band	Size	Timeframe	Usage
Belgium	Digital dividend	790-862Mhz	total min 340MHz 72MHz	to be defined	to be defined
	Re-farming	900Mhz	66.8Mhz (24 + 24 + 18.8)	2013/2015	part of it to be given to new 3G
	3G extension	2100MHz	3 blocks of 2x5MHz	to be defined	3G for existing and one new operator (Telenet interested)
	LTE	2.6GHz	4 blocks 15*2 MHz	to be defined	4G/LTE
	WiMAX	2.6GHz	50 MHz	to be defined	TDD
France	Digital dividend for 4G	790-862Mhz	total min 282MHz 72MHz	H2 - 2011 (procedure to start by end 2010)	Mobile broadband - 4G
	Re-farming	900MHz	2*9.8 (By) + 2*10 (Ora) + 2*10 (SFR) + 2x5 (ILD) post re-farming	2010-2012	3G in these bands + spectrum transfer to Iliad
	Re-farming	1800MHz	current: 2x23.8 (ORA), 2x23.8 (SFR), 2x26.6 (BOUY)	end 2011 - early 2012	3G in these bands + spectrum transfer to Iliad
	Military spectrum for 4G	2.6GHz	(2x70MHz FDD) + 1x50MHz (TDD)	H2 - 2011 (procedure to start by end 2010)	Mobile broadband - 4G
Italy	Digital dividend	to be defined	total min 40 MHz to be defined	to be defined	to be defined
	Re-farming	900MHz and 1.8GHz	5x5MHz	to be defined	3G
Netherlands	Digital Dividend	800 MHz	total min 397MHz 72MHz	end 2011	To be defined
	GSM	900MHz	68MHz	2013	To be renewed to current operators
	GSM	1800MHz	144MHz	2013	To be renewed to current operators
Poland	Digital dividend	800MHz	2x30MHz	to be defined	to be defined
		2.6GHz	2x70MHz	to be defined	to be defined
UK	Digital dividend	550-606MHz + 790-862MHz	total min 318MHz 128MHz	end of 2011	technology neutral
	Re-farming	900MHz and 1.8GHz	to be defined	to be defined	Operators allowed to use these frequencies for 3G under EU revised GSM directive
	Divestment of Orange/T-Mobile JV	1.8GHz	2x15MHz	To be auctioned or sold by end	
	UMTS extension band	2.6GHz	2011, otherwise back to Ofcom 190MHz (likely 2*70MHz + 1*50MHz)	end of 2011	WiMAX / LTE to be auctioned in co-ordination with 800MHz
Spain	Digital dividend	800MHz	to be defined 2x30MHz	2015	
	Re-farming/UMTS	900MHz / 1.8GHz and	310MHz	2011	
	Extension band	2.6GHz			
Switzerland	Digital dividend	790-862Mhz	to be defined 72MHz	to be defined	Mobile broadband
	Various GSM/UMTS	900 MHz, 1800 MHz, 2.1 GHz and 2.6 GHz	to be defined	2013	For existing and new operators

Source: HSBC

Disclosure appendix

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Issuer of report

HSBC Securities and Capital Markets (India) Private Limited

Registered Office

52/60 Mahatma Gandhi Road
Fort, Mumbai 400 001, India

Telephone: +91 22 2267 4921

Fax: +91 22 2263 1983

Website: www.research.hsbc.com

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