

Industry Flash

18 March 2009 | 6 pages

India Wireless

RCOM's Sub Adds Tapering as Trial Offer Phases Out

- RCOM's "trial offer" gradually being withdrawn** — 3.3m net adds in Feb (vs. 5m in Jan) show a clear impact of "trial offer" on performance. Net adds have collapsed in circles where the offer has been withdrawn (Mumbai, Gujarat, Karnataka, UP-East and Rajasthan). Net adds have held on/increased in circles where the offer is still on or was introduced in Feb (Maharashtra, AP, TN, Punjab, Haryana and UP-West). Please see Figure 2 for circle-wise breakup of RCOM's net adds in Jan-Feb'09.
- GSM net adds continue to hold up** — GSM net adds remained strong in Feb with 9.2m additions (excl. RCOM's old GSM circles). Vodafone continues to build on its strong growth momentum from new circle launches with 2.6m net adds, just short of Bharti's 2.7m. Meanwhile BSNL stood at 1.5m.
- Idea's net adds, however, fall to 1.5m** — The sharp fall (2m in Jan) is primarily due to lower adds in Mumbai/Bihar, a result of 1) reduced emphasis on low tariff scheme in Mumbai and 2) impact of churn from the subs acquired at the time of the launch. Idea's reactionary tariffs (to RCOM) in Mumbai now seem more to reach the sub base required to be eligible for next tranche of spectrum (6.2 Mhz) esp. as RCOM also achieved that in Jan-09 (given limited spectrum).
- Impact on incumbents** — As we have highlighted in the past, while RCOM's launch has little impact on incumbents net adds, it could lead to a dip in 4QFY09 MOUs as paying minutes become non-paying. Longer-term impact will, however, be limited as RCOM starts to offer normalized tariff schemes. Bharti (BRTI.BO; Rs569.20; 1L) remains our Top Pick.

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Figure 1. Subscriber details (m)

	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Adds	Y/Y	M/M
RCOM	50.8	52.5	54.3	56.0	57.8	59.6	61.3	66.3	69.2 ¹	2.9	56.7	4.4
Bharti	69.4	72.1	74.8	77.5	80.2	82.9	85.7	88.4	91.1	2.7	52.7	3.1
BSNL	39.7	40.3	40.8	41.5	42.2	42.8	43.7	45.0	46.5	1.5	26.0	3.3
Voda	49.2	51.0	52.8	54.6	56.7	58.8	60.9	63.3	65.9	2.6	54.9	4.1
Idea	31.7	32.4	32.8	34.0	35.2	36.5	38.0	40.0	41.5	1.5	54.0	3.8
TTSL	21.8	22.8	23.8	24.8	25.6	26.4	27.2	28.2	29.3	1.1	55.6	3.8
MTNL	3.5	3.6	3.7	3.8	3.8	3.9	4.0	4.1	4.2	0.1	29.8	2.0
Other	13.6	14.3	15.0	15.9	16.9	17.8	18.6	19.5	20.3	0.8	73.2	4.4
Total	279.7	288.9	298.0	308.1	318.4	328.7	339.5	354.8	368.1	13.3	50.8	3.7

Source: Citi Investment Research and Analysis. ¹ doesn't include net adds in RCOM's old GSM circles

See Appendix A-1 for Analyst Certification and important disclosures.

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Figure 2. RCOM's trial offer status in new GSM circles

	Circle	Jan-09 net adds	Feb-09 net adds
Withdrawn/Phased Out	Mumbai	739,509	48,697
	Gujarat	825,211	34,062
	Karnataka	645,634	36,828
	UP (E)	747,479	93,303
	Rajasthan	660,664	103,496
On-going	Maharashtra	253,317	487,871
	AP	87,337	608,544
	TN	163,675	372,094
	Punjab	33,939	183,957
	Haryana	32,610	239,588
	UP (W)	105,017	339,114
Yet to impact	Delhi	63,708	147,650
	Chennai	6,262	1,749
	Kerala	57,905	40,833

Source: Citi Investment Research and Analysis, COAI, AUSPI

Bharti Airtel (BRTI.BO; Rs569.20; 1L)

Valuation

Our target price of Rs900 is based on Mar-09E core DCF of Rs730 and a towerco option value of Rs170. The DCF is based on a WACC of 12% to reflect current macro environment, a terminal growth rate of 4% and beta of 0.9. We prefer DCF as our primary valuation methodology because the wireless market will likely continue to see robust growth requiring upfront capex but should generate significant free cash beyond FY09-10E. Our target price (standalone ex-towerco) represents a FY10E P/E of 14.2x, P/CEPS of 9.4x and EV/EBITDA of 7.9x.

Risks

Our quantitative risk-rating system, which tracks 260-day share price volatility, rates Bharti shares as Low Risk. We are comfortable attributing a Low Risk rating for the following reasons: 1) Bharti has a track record of profitability and execution; 2) the company's capex plans are fully funded; and 3) SingTel's strategic shareholding leaves us comfortable with execution issues and initiatives. Risks that could prevent the stock from reaching our target price include competition-led tariff pressures, cut in termination fee, unremunerative capex and excessive bidding for 3G.

Appendix A-1

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Analyst: Rahul Singh

Covered since April 28 2006

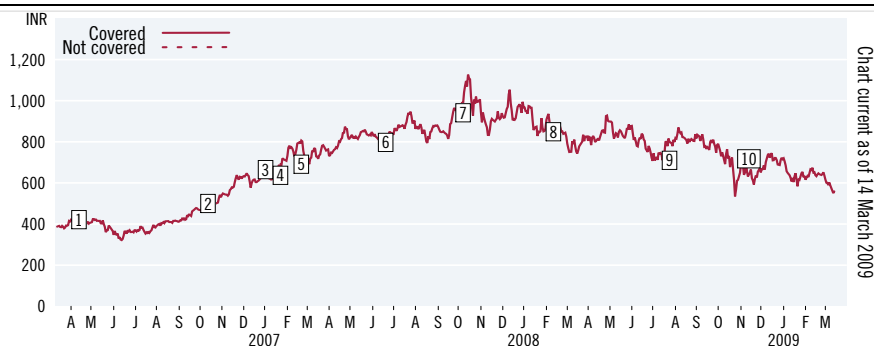


Chart current as of 14 March 2009

	Date	Rating	Target Price	Closing Price
1	13-Apr-06	1M	*500.00	395.95
2	12-Oct-06	*1L	*600.00	475.65
3	2-Jan-07	1L	*750.00	633.00
4	23-Jan-07	1L	*800.00	689.15

	Date	Rating	Target Price	Closing Price
5	21-Feb-07	1L	*960.00	806.30
6	20-Jun-07	1L	*1,050.00	824.65
7	8-Oct-07	1L	*1,200.00	984.80
8	12-Feb-08	1L	*1,150.00	855.80

	Date	Rating	Target Price	Closing Price
9	24-Jul-08	1L	*1,070.00	797.95
10	13-Nov-08	1L	*900.00	631.25

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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