

## India: Telecom Services

Equity Research

### Sound from the ground: MNP activity uptake; focus on postpaid

#### MNP unlikely to change market shares; but risks to postpaid tariffs

We do not expect any material changes in market share from MNP (Mobile Number Portability), which is scheduled to be implemented on a pan-India basis from Jan 20. However we expect a near-term increase in S&M costs, network expenses, and churn rates. We do not expect a meaningful proportion of corporate subs moving from incumbents to new entrants given the better network QoS (Quality of Service). Instead, we believe these subs will negotiate tariffs with incumbents. We estimate post-paid contributes about 15%-20% to Bharti's/ Idea's cellular revenues and believe 5%-8% of Bharti's earnings may be at risk. Case-studies from other markets show limited impact from MNP in the majority of the cases.

#### MTNL/Loop to be impacted most? Bharti may gain in rural India

We believe operators such as MTNL/Loop Telecom, which have legacy high-end postpaid subs but over a period of time have arguably struggled with network quality/customer service would likely see high-end subs churning out. In rural India, we believe Bharti could be a potential beneficiary if subs port out from BSNL for better coverage/service.

#### Idea most aggressive; RCOM/DoCoMo risk losing CDMA subs

Based on our channel checks/retail observations, we believe Idea is most aggressively marketing/educating consumers on MNP. We believe dual technology operators like Tata DoCoMo/RCOM are not aggressive in mass advertising as they risk losing a large part of their CDMA subs but are selectively targeting the lucrative corporate postpaid base. In Metros, some of the non-incumbent operators are giving a flat discount of 20-30% on the existing bill to high-end incumbent subs if they switch to these operators.

#### Can MNP facilitate consolidation? Reiterate Buy on Bharti/Idea

We believe one of the key hindrances for any potential license cancellation of new entrants is what happens to subs on these networks. In our view, MNP rollout would help resolve this issue, as consumers could port to another network and retain the same number and their services would not be disrupted. We consider MNP as the last leg for any potential competitive uptake and expect competitive dynamics to stabilize in a few months after MNP. We believe the business case for new entrants will further weaken after a few months of MNP rollout and expect it to be another trigger for consolidation. Reiterate Buy on Bharti (on CL) and Idea.

#### SUMMARY OF RATINGS AND TARGET PRICES

Ticker	Rating	Current Price (Rs)	12-m TP (Rs)	Potential	Valuation	
				upside	Methodology	
Bharti	BRTI.BO	Buy*	347.60	430	24%	SOTP
Idea	IDEA.BO	Buy	69.15	84	21%	SOTP
RCOM	RLCM.BO	Neutral	131.80	155	18%	SOTP

\* Indicates stock is on our Conviction List.  
Note: Share prices based on the close as at Jan 17, 2010.  
Source: FactSet, Goldman Sachs Research estimates.

**Risks:** Upside: Faster-than-expected improvement in the competitive intensity; Downside: Higher-than-estimated capex/opex.

#### VALUATION (FISCAL-YEAR BASIS)

	P/E (X)			EV/EBITDA (X)*			Net debt/EBITDA (X)	
	11E	12E	13E	11E	12E	13E	10A	11E
Bharti	22.1	14.3	10.8	9.8	7.3	5.9	0.1	2.9
Idea	31.2	25.7	16.6	9.4	7.2	5.8	1.8	3.5
RCOM	17.4	17.7	13.5	8.4	7.0	5.8	2.5	4.2

\* Proportionate EV/EBITDA for Bharti  
Source: FactSet, Goldman Sachs Research estimates.

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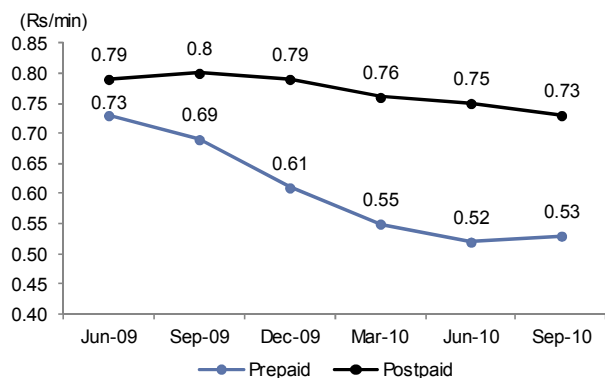
## MNP impact: Unlikely to materially change market shares

We do not expect any material changes in market share from MNP and expect near-term increases in S&M costs, network expenses, and churn rates. Given the predominant pre-paid nature of the Indian market (96%+ subs are pre-paid), we believe operators will likely focus on attracting the post-paid subs/high-end pre-paid subs after MNP.

**In the near-term, we do not rule out downside risks to postpaid tariff and consider MTNL/Loop Telecom the most vulnerable:** We believe MNP implementation might lead to increase in competitive pressures in the high-end prepaid/post-paid market – particularly the corporate subs base as new entrants try to attract these subs from incumbents. We do not expect a meaningful proportion of corporate subs moving from incumbents to new entrants given the better network QoS (Quality of Service), and customer service provided by incumbents. However, we expect these corporate subs to negotiate rentals/tariffs with incumbents. This may lead to some impact on profitability of the incumbent operators. We estimate post-paid contributes about 15%-20% to Bharti's/ Idea's cellular revenues and believe 5%-8% of Bharti's earnings may be at risk. However we expect any impact to be spread over a few quarters.

In addition, we believe operators such as MTNL/Loop Telecom, which have legacy high-end postpaid subs but over a period of time have arguably struggled with network quality/customer service would likely see high-end subs churning out.

**Exhibit 1: Prepaid and postpaid RPM of GSM operators**  
The gap has widened in past few quarters



Source: TRAI, Goldman Sachs Research

**Exhibit 2: Prepaid dominates the subs mix**  
But postpaid subs have better ARPU and better margins

Bharti	FY06	FY07	FY08	FY09	FY10
Prepaid	82.7%	88.5%	91.6%	94.2%	95.8%
Postpaid	17.3%	11.5%	8.4%	5.8%	4.2%
Idea	FY06	FY07	FY08	FY09	FY10
Prepaid	81.8%	88.9%	93.0%	94.6%	95.7%
Postpaid	18.2%	11.1%	7.0%	5.4%	4.3%
RCOM	FY06	FY07	FY08	FY09	FY10
Prepaid	79.3%	84.7%	90.0%	93.5%	95.6%
Postpaid	20.7%	15.3%	10.0%	6.5%	4.4%
Vod*	FY06	FY07	FY08	FY09	FY10
Prepaid	85.6%	89.2%	90.2%	92.7%	94.3%
Postpaid	14.4%	10.8%	9.8%	7.3%	5.7%

\* Vodafone Essar

Source: TRAI, Goldman Sachs Research

**In the longer-run, operators like Bharti who have 900 MHz spectrum and good rural presence will likely benefit:** In the long-run, we believe operators who have 900 MHz spectrum (mainly incumbent operators like Bharti) will likely gain/maintain market share as the 900 MHz spectrum provides a competitive advantage over 1800 MHz in terms of better network quality at relatively lower capex. In rural India, although we acknowledge that BSNL's churn rate is lower (given higher loyalty), we do not rule out its subs migrating after MNP implementation for better service quality/customer-care service. We believe Bharti could be a potential beneficiary given its dominant presence in the rural market among private operators. However we expect Bharti to gain market share from BSNL in rural areas in a phased manner as it will take time for consumers to be educated on MNP.

**Exhibit 3: Circle wise gross revenue market share**

(Rs mn)	BSNL/						GS Comments
	Bharti	VOD	Idea	RCOM	MTNL	Others	
Metros	15,206	15,302	3,791	8,057	9,033	8,829	Bharti/VOD evenly positioned; Idea could be aggressive
Circle A	35,890	22,301	14,594	9,932	8,230	18,628	Mkt share evenly skewed to Bharti. More to defend
Circle B	27,052	21,177	17,147	9,857	10,090	9,068	BSNL most vulnerable in this Circle
Circle C	13,500	2,831	1,641	4,691	3,653	6,591	Bharti at an advantage given limited competition

(Market share)	BSNL/					
	Bharti	VOD	Idea	RCOM	MTNL	Others
Metros	25%	25%	6%	13%	15%	15%
Circle A	33%	20%	13%	9%	8%	17%
Circle B	29%	22%	18%	10%	11%	10%
Circle C	41%	9%	5%	14%	11%	20%

Note: Gross revenues as of Sep'10

Source: TRAI, Goldman Sachs Research.

## Key conclusions on potential operator strategy on MNP based on our discussions with industry participants

**Non incumbents targeting postpaid subs and not high-end prepaid:** Based on our discussions with operators we believe the non-incumbent operators are focusing on targeting the lucrative high-end corporate subs base of incumbents. Although the high-end prepaid segment also forms a large portion of total revenues, the new entrants' interest in targeting them surprisingly appears to be relatively low as of now. None of the operators are focusing on the mid-to-low end prepaid subs base as these consumers use multiple SIM cards and churn frequently.

**Incumbent operators: In a defensive mode?** Incumbent operators believe MNP will have limited impact on their earnings. They believe the high-end postpaid subs will prefer incumbents given that they provide better QoS and customer care. Incumbents believe they have ring-fenced their corporate consumers by providing bundled offerings, attractive tariffs and dedicated call centers.

**Incumbents unlikely to renegotiate tariffs aggressively; banking on these subs porting back to them in the medium term:** We believe incumbent operators are unlikely to aggressively re-negotiate the postpaid tariffs downwards as they are well aware of their strengths like 900 MHz spectrum and better customer care which the relatively new entrants lack. Therefore, in our view, the incumbents may let go a few consumers who try to aggressively renegotiate. Incumbents are hopeful that a part of such subs will return to them given their inherent advantages which are unlikely to be replicated by the non-incumbent operators.

**The challengers: Competing only on price...** All the non-incumbent operators believe that corporate/enterprises will take MNP as an opportunity to renegotiate their tariffs. While these operators acknowledge that better QoS and customer care call-centers are necessary for keeping the high-end postpaid happy, they believe "attractive pricing" is the most important factor and corporates will switch if they are offered a 25-30% discount on their current tariffs. Some of these operators do not rule out subsidizing high-end handsets to poach some of the high-end consumers

**Dual-technology operators have customized "corporate" strategy as they risk losing CDMA subs in a mass-market strategy, in our view:** We believe dual technology operators like Tata DoCoMo and RCOM are not aggressive in mass advertising and educating consumers on MNP unlike operators like Idea Cellular as they risk losing a large

part of their CDMA subs who are unable to migrate to other networks until now as they would end up losing their number. We note that initial data from MNP launch in Haryana had showed that it was mainly the CDMA subs that have ported to GSM. However we expect these operators to selectively target the high-end post paid corporate GSM subs base by offering cheaper tariffs.

**Exhibit 4: GSM and CDMA subs breakup of RCOM/TTSL**

CDMA subs contribute majority of revenues for dual technology operators

RCOM	Dec-09	Mar-10	Jun-10	Sep-10
GSM subs ('000s)	38,202	46,370	54,327	62,050
(% of total subs)	41%	45%	49%	53%
CDMA subs ('000s)	55,594	56,052	56,480	55,287
(% of total subs)	59%	55%	51%	47%

TTSL	Dec-09	Mar-10	Jun-10	Sep-10
GSM subs ('000s)	18,686	26,908	32,824	38,156
(% of total subs)	33%	41%	45%	48%
CDMA subs ('000s)	38,643	39,034	39,711	40,915
(% of total subs)	67%	59%	55%	52%

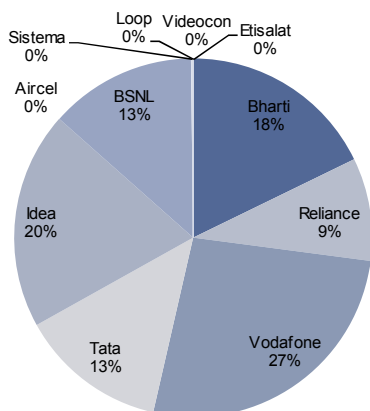
Source: TRAI, Goldman Sachs Research.

**Initial MNP launch data: Not correct representative of MNP impact**

MNP in India was launched in a phased manner – with Haryana being the first circle where MNP was rolled on Nov 24. (Entire India is scheduled to have MNP by Jan 20). The initial data from Haryana (as per Business Standard Jan 15) shows that 140K subs (0.8% of 17.8 mn Haryana subs as of Oct '10) requested to be ported since Nov 24. However the actual churn was 80k (request to port for remaining was rejected). We believe the initial lackluster impact due to MNP launch in Haryana is not a correct representative of MNP impact in India.

**Exhibit 5: Haryana: Revenue market share (Sep '10)**

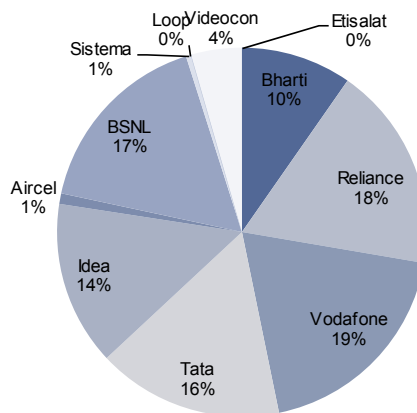
Haryana 2QFY11 (Sep'10) gross revenue market share  
Total 2QFY11 gross revenue: Rs5.84 b



Source: TRAI, Goldman Sachs Research.

**Exhibit 6: Haryana: subs market share (Sep '10)**

Haryana Sep'10 subs market share  
Total subs: 17.16 m



Source: TRAI, Goldman Sachs Research.

We believe the key impact of MNP will be felt in Metros where the majority of the postpaid subscriber base for incumbent telcos exist and will likely be targeted by non incumbent operators like Tata DoCoMo, Airtel, Idea and RCOM. We do not expect operators like Uninor, Videocon, Etisalat to be aggressive as they have no/limited postpaid offerings.

## On the ground checks and retail observations

### High ARPU consumers of incumbents selectively targeted by competitor operators:

Based on discussions with operators and retail checks, we believe non-incumbent operators in key metros are approaching select consumers of incumbent operators with monthly bills of Rs 1,500 or more to port to their network. These non-incumbent operators are giving a flat discount of 20-30% on the existing bill if they switch to these operators.

**Dedicated call centers used to educate/poach consumers:** Operators like Bharti and Idea have set-up dedicated toll free call centers with the intent of educating consumers about MNP and trying to poach consumers. Based on our interactions with these customer care executives we believe 1) While Idea Cellular’s focus is more on poaching/porting in subs, Bharti appears to be equally focused on retaining its subs base; 2) We found executives of Idea more aggressive in responding to queries and offering customized plans to suit the needs of consumers.

**Operators unveiling MNP specific ads to educate consumers:** Following our checks/retail observations and discussions with companies, we believe Idea Cellular is the most aggressive operator which is advertising on MNP. Recently both Bharti and Vodafone unveiled their ads highlighting the advantages each of them has over its peers.

### Exhibit 7: Aggressively advertising and marketing on MNP in our view



Source: Company data

### Exhibit 8: Incumbent advertising: Focusing on their strengths

Airtel	Vodafone
1 India's most preferred mobile operator, with more than 145 mn customers.	1 Wherever you go, our network follows
2 Widest network coverage in India with 110,000+ sites (towers).	2 We're present across the globe
3 World-class network quality.	3 We're happy to help
4 Recharge facility anywhere in India ,with 1.5 mn + retail outlets.	4 We're India's most trusted service brand
5 Large bouquet of exciting VAS (Value Added Services)	5 We let you choose your tariffs as per your usage
1 Mobile Internet Services	6 We're always within your reach
3 My Tunes	7 Our tariffs are unmatched
5 Talk-to-Me	8 We bring you the latest technology
7 Download Mobile Games	9 We're got unique business solutions
6 Self Care mode by dialing *121#	10 We'll always delight you
7 Power in the hands of the customer to activate /deactivate and VAS as per choice through START/STOP facility	

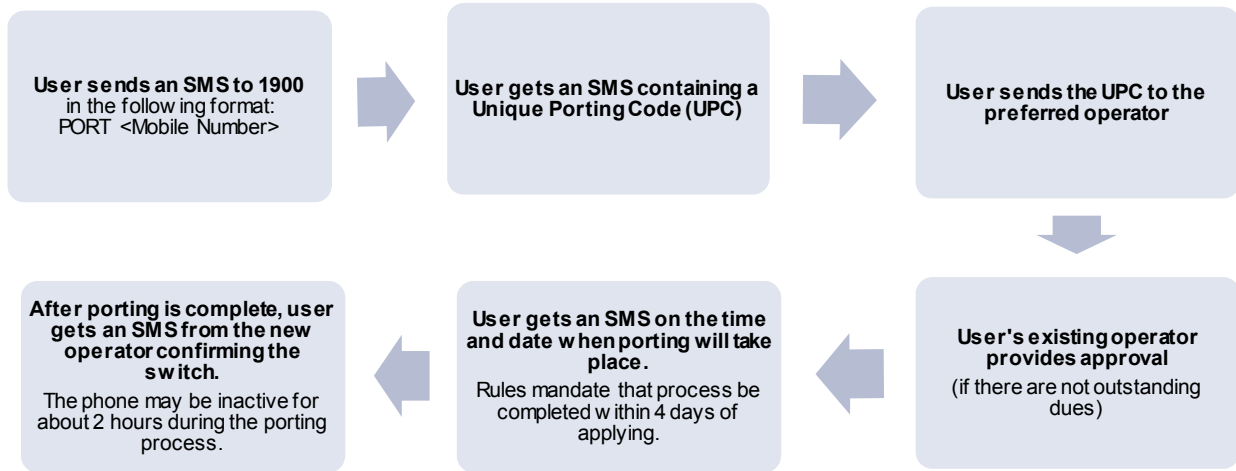
Source: Company data, Goldman Sachs Research.

## Appendix 1: MNP and Process of porting in India

MNP is scheduled to be implemented all over India in a phased manner from Nov 24 to Jan 20. The cost of porting is Rs 19. Once a subscriber ports to another network, he/she is expected to remain on that network for 90 days before porting again.

### Exhibit 9: Process of porting in India

Porting cost (Rs 19) and time (2 hours deactivation) to facilitate easier porting



Source: TRAI, Company data, Goldman Sachs Research.

## Appendix 2: Case-studies of other markets: No conclusive data

**Negative for sentiment, not so much financially:** The key conclusions from case studies of MNP implementation in other global markets are as follows: 1) S&M expenses and network expenses increase immediately before/during implementation as operators focus on marketing and improving network quality; 2) churn rates increase in the first few months, but normalize soon, and 3) there is no conclusive evidence that MNP leads to a material change in market share. In Exhibit 10, we have highlighted case studies from HK, Finland, and South Korea – which showed marginal movement in market share led by MNP implementation.

We note the Indian market is different from most other global markets which have rolled out MNP given that it is a predominantly pre-paid market. Pakistan is one of the very few pre-paid markets which has launched MNP. We saw no major impact on the Pakistan market due to MNP. Also worth noting here that MNP in India would be launched at a time when all operators are under financial stress (higher gearing due to recently concluded 3G auctions), thus reducing their ability to be irrational and/or hyper-competitive.

### Exhibit 10: MNP case-studies: No decisive conclusions

Most markets where MNP was implemented offer handset subsidies; except Pakistan

Country, yr of MNP	-1 Yr	MNP	+1 Yr	-1 Yr	MNP	+1 Yr	-2Q	-1Q	Date of MNP	+1Q	+2Q
<b>Hong Kong (1999)</b>	Subs market share			EBITDA margin			Share price (HKD)				
	1998	1999	2000	1998	1999	2000	-2Q	-1Q	Mar 1 '99	+1Q	+2Q
Hutchison	30.9%	31.3%	32.5%	NA	NA	NA					
CSL	29.9%	23.2%	20.5%	41.8%	46.1%	38.6%					
SmarTone	18.0%	18.2%	20.1%	32.8%	28.8%	11.4%	9.7	16.5	13.6	16.0	16.9
<b>Finland (2003)</b>	Subs market share			EBITDA margin			Share price (SEK/EUR)				
	2002	2003	2004	2002	2003	2004	-2Q	-1Q	Jul 1 '03	+1Q	+2Q
TeliaSonera	55.5%	51.2%	46.1%	47.4%	45.1%	43.1%	28.0	20.9	27.4	28.1	32.5
Elisa	29.9%	29.0%	27.8%	26.3%	27.9%	32.5%	4.6	4.6	5.7	6.4	8.3
Finnnet (DNA)	7.1%	16.0%	14.9%	NA	NA	NA					
<b>South Korea (2004)</b>	Subs market share			EBITDA margin			Share price (KRW)				
	2003	2004	2005	2003	2004	2005	-2Q	-1Q	Jan 1 '04	+1Q	+2Q
SKT	54.5%	51.3%	50.9%	49.3%	41.8%	42.2%	196,389	181,769	204,673	207,597	180,307
KTF (incl. KT resale)	31.1%	32.1%	32.1%	32.1%	27.8%	32.4%	25,100	21,000	19,700	20,000	20,550
LGT	14.4%	16.6%	17.0%	25.0%	15.3%	21.6%	4,130	3,830	3,750	3,365	3,280
<b>Pakistan (2007)</b>	Subs market share			EBITDA margin			Share price (PKR)				
	2006	2007	2008	2006	2007	2008*	-2Q	-1Q	Mar 26 '07	+1Q	+2Q
Mobilink (Orascom)	49.9%	41.9%	36.4%	-25.5%	11.1%	19.2%					
Ufone (PTCL)	21.7%	22.2%	20.6%	40.0%	43.9%	43.1%	40.4	44.3	47.3	54.8	50.7
Telenor Pakistan	10.4%	16.9%	20.6%	50.6%	43.2%	51.7%					

\* Data for 1H08

Source: Bloomberg, Company data, Goldman Sachs Research.

## Appendix 3: Revenue market share/spectrum frequency in India

**Exhibit 11: Top 3 operators by revenues in various circles**

We do not expect material impact in market shares from MNP

Circle		1		2		3	
Metros	Delhi	<b>BRTI</b>	32%	VOD	22%	MTNL	15%
	Kolkata	VOD	31%	<b>BRTI</b>	28%	<u>RCOM</u>	17%
	Mumbai	VOD	28%	MTNL	18%	<b>BRTI</b>	16%
Circle A	Andhra Pradesh	<b>BRTI</b>	40%	<u>Idea</u>	16%	TTSL	13%
	Gujarat	VOD	40%	<b>BRTI</b>	20%	<u>Idea</u>	17%
	Karnataka	<b>BRTI</b>	48%	VOD	14%	TTSL	12%
	Maharashtra	<u>Idea</u>	29%	VOD	21%	<b>BRTI</b>	20%
Circle B	TN (incl. Chennai)	<b>BRTI</b>	32%	Aircel	23%	VOD	21%
	Haryana	VOD	27%	<u>Idea</u>	20%	<b>BRTI</b>	18%
	Kerala	<u>Idea</u>	30%	VOD	22%	<b>BRTI</b>	19%
	Madhya Pradesh	<b>BRTI</b>	29%	<u>Idea</u>	29%	<u>RCOM</u>	20%
	Punjab	<b>BRTI</b>	36%	<u>Idea</u>	19%	VOD	17%
	Rajasthan	<b>BRTI</b>	45%	VOD	22%	BSNL	9%
	Uttar Pradesh (E)	VOD	31%	<b>BRTI</b>	29%	BSNL	13%
	Uttar Pradesh (W)	<u>Idea</u>	27%	VOD	24%	<b>BRTI</b>	19%
	West Bengal	VOD	36%	<b>BRTI</b>	28%	<u>RCOM</u>	10%
	Assam	<b>BRTI</b>	32%	Aircel	24%	<u>RCOM</u>	18%
Circle C	Bihar	<b>BRTI</b>	45%	<u>RCOM</u>	15%	BSNL	9%
	Himachal Pradesh	<b>BRTI</b>	41%	<u>RCOM</u>	17%	BSNL	15%
	Jammu & Kashmir	<b>BRTI</b>	46%	Aircel	31%	BSNL	7%
	North East (NE)	<b>BRTI</b>	36%	Aircel	28%	BSNL	17%
	Orissa	<b>BRTI</b>	38%	BSNL	16%	<u>RCOM</u>	16%

Source: TRAI, Goldman Sachs Research.

**Exhibit 12: 900 MHz advantage to be more evident after MNP**

Bharti, Vodafone and Idea have 900 MHz in 14, 11 and 9 circles respectively

Service Area	Category	Bharti	RCOM	VOD	BSNL / MTNL	Idea / Spice	TTSL DoCoMo	Aircel	Loop (BPL)	SSTL Sistema	Datacom Videocon	S Tel	Swan Etisalat	Unitech Telenor
Delhi	Metro	900	1800	900	900	1800		1800		800	1800		1800	1800
Kolkata	Metro	900	1800	900	900	1800	1800	1800	1800	800	1800			1800
Mumbai	Metro	1800	1800	900	900	1800	1800	1800	900	800	1800		1800	1800
Andhra Pradesh	A	900	1800	1800	900	900	1800	1800	1800	800	1800		1800	1800
Gujarat	A	1800	1800	900	900	900	1800	1800	1800	800	1800		1800	1800
Karnataka	A	900	1800	1800	900	900	1800	1800	1800	800	1800		1800	1800
Maharashtra	A	1800	1800	900	900	900	1800	1800	1800	800	1800		1800	1800
TN (incl. Chennai)	A	1800	1800	900	900	1800	1800	900	1800	800	1800		1800	1800
Haryana	B	1800	1800	1800	900	900	1800	1800	1800	800	1800		1800	1800
Kerala	B	1800	1800	900	900	900	1800	1800	1800	800	1800		1800	1800
Madhya Pradesh	B	1800	900	1800	900	900	1800	1800	1800	800	1800		1800	1800
Punjab	B	900	1800	1800	900	900	1800	1800	1800	800	1800		1800	1800
Rajasthan	B	900	1800	900	900	1800	1800	1800	1800	800	1800		1800	1800
UP (East)	B	900	1800	900	900	1800	1800	1800	1800	800	1800		1800	1800
UP (West)	B	1800	1800	900	900	900	1800	1800	1800	800	1800		1800	1800
West Bengal	B	900	900	900	900	1800	1800	1800	1800	800	1800			1800
Assam	C	900	900	1800	900	1800	1800	900	1800	800	1800	1800		1800
Bihar	C	900	900	1800	900	1800	1800	1800	1800	800	1800	1800	1800	1800
Himachal Pradesh	C	900	900	1800	900	1800	1800	1800	1800	800	1800	1800		1800
J&K	C	900	1800	1800	900	1800		900	1800	800	1800	1800		1800
North East	C	900	900	1800	900	1800		900	1800	800	1800	1800		1800
Orissa	C	900	900	1800	900	1800	1800	1800	1800	800	1800	1800		1800

Note: Boxed cells indicate operations have not been launched in the circles.

Source: DoT, Goldman Sachs Research.



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Sachin Salgaonkar: Asia Pacific Telecoms.

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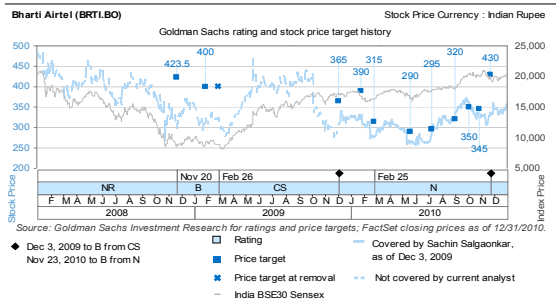
### Distribution of ratings/investment banking relationships

Goldman Sachs Investment Research global coverage universe

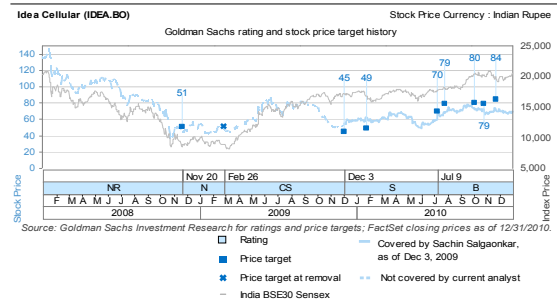
	Rating Distribution			Investment Banking Relationships		
	Buy	Hold	Sell	Buy	Hold	Sell
Global	31%	54%	15%	50%	42%	37%

As of January 1, 2011, Goldman Sachs Global Investment Research had investment ratings on 3,137 equity securities. Goldman Sachs assigns stocks as Buys and Sells on various regional Investment Lists; stocks not so assigned are deemed Neutral. Such assignments equate to Buy, Hold and Sell for the purposes of the above disclosure required by NASD/NYSE rules. See 'Ratings, Coverage groups and views and related definitions' below.

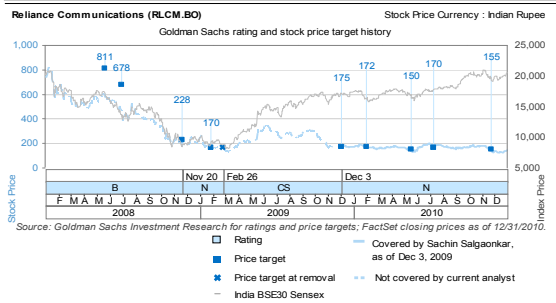
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