

# Telecom services

## Sensitivity to earnings from MNP

- Mobile number portability, a negative for industry revenues and margins:** Haryana rolled out MNP services on 25<sup>th</sup> Nov 2010 and a national rollout schedule is expected shortly. MNP provides subscriber the freedom to choose technology (GSM or CDMA), payment plan (prepaid or postpaid) and his service provider within an existing service area (circle) while retaining his original number. This presents a completely new set of opportunities and challenges to service providers, considering that revenue generating postpaid subscribers (4% of subscriber base, 13% of revenues and 30% of EBITDA) unwilling to change numbers can now change service providers and even switch to a prepaid plan (zero rental). This would eventually lead to lower revenues and higher costs for industry through **a) lower ARPUs** in the postpaid segment and pressure on margins, **b) increased focus on customer support and network quality**, resulting in higher costs, and **c) increased churn rates** both in prepaid and postpaid segments. Additionally, it implies a declining rate of monthly net subscriber additions.
- Idea exhibits highest sensitivity to MNP, Bharti least:** Using June 2010 TRAI reported postpaid ARPU by circle classification (A,B,C and Metro) for private operators, we derive **a) postpaid ARPU** for each incumbent using September 2010 subscriber weights (A,B,C and Metro), and **b) prepaid ARPU** by using the reported overall ARPU and calculated postpaid ARPU, as in point 'a'. Assuming a 10% higher cost for servicing postpaid subscribers, we also derive an EBITDA breakup between postpaid and prepaid. We note that a 2% decline in postpaid subscribers and a 10% decline in postpaid ARPU results in consolidated EBITDA decline of 5.7% for Idea, 4.5% for RCom, 3.1% for Vodafone and 1.8% for Bharti.
- Quality of service key to customer retention:** With limited scope for significant tariff reduction, customers would increasingly focus on network coverage (reliable and pan-India), completeness in bouquet of offerings (3G, VAS, m-commerce), ease in complaint redress, ease of recharge (distribution) and other softer service quality-related nuances in choosing their service provider. An analysis of independent QoS reports for various circles for H2CY09 published by TRAI on parameters like provision of service, network performance, voice quality, billing satisfaction, help satisfaction and supplementary services ranks Vodafone and Bharti at the top followed by Tata Teleservices, Idea, RCom and Aircel. We reiterate our view that established operators are favourably positioned to accrue market share gains as customers exercise their choice based on quality of service.
- Prefer diversified players, reiterate Bharti as our top pick with Sept'11 TP of ₹422:** While we expect MNP to be favourable for operators like Bharti in terms of customer acquisition we also recognise that revenues and margins for the industry will be negatively impacted and will be front ended as compared to market share gains which should accrue eventually. We prefer Bharti's diversified business model (across business domains and geographies) which imparts a higher degree of stability to revenues and earnings. Our Sept'11 target price of ₹422 provides an upside of 26% and we recommend a BUY as Africa delivers bulk of earnings growth over FY11-13E. We rate Idea a NEUTRAL with a Sept'11 target price of ₹72 and MTNL a SELL with a Sept'11 target price of ₹38.

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**Exhibit 1 (a): Calculation of postpaid ARPU**

ARPU (Rs)	India*	Bharti	Rcom	Idea	Vodafone
Circle A	540	35%	24%	37%	36%
Circle B	501	36%	44%	48%	43%
Circle C	384	18%	18%	7%	7%
Metro	661	11%	15%	8%	15%
<b>Pvt. Players (avg)</b>	<b>550</b>	<b>512</b>	<b>513</b>	<b>520</b>	<b>531</b>
BSNL	353				
Overall Avg.	509				

← Using Subscriber weights

\* Reported by TRAI

Source: TRAI, JM Financial

**Exhibit 1 (b): Calculation of prepaid ARPU**

	Bharti	Rcom	Idea	Vodafone
Avg. 2Q subscribers ('000)	139,956	113,697	73,635	109,657
Prepaid %	96.1%	96.0%	96.1%	94.8%
<b>- Prepaid subscribers</b>	<b>134,498</b>	<b>109,149</b>	<b>70,763</b>	<b>103,955</b>
- Postpaid subscribers	5,458	4,548	2,872	5,702
Wireless Revenue (Rs mn)	88,045	41,613	36,891	58,350
<b>- Prepaid revenue</b>	<b>79,659</b>	<b>35,138</b>	<b>32,411</b>	<b>49,259</b>
- Postpaid revenue	8,386	6,475	4,480	9,092
Overall ARPU (Rs)	210	122	167	177
<b>- Prepaid</b>	<b>197</b>	<b>107</b>	<b>153</b>	<b>158</b>
- Postpaid (as above)	512	475	520	531

Source: TRAI, JM Financial

**Exhibit 1 (c): Calculation of EBITDA per user**

	Bharti	Rcom	Idea	Vodafone
Wireless EBITDA (Rs mn)	30,964	12,101	7,618	18,129
- Prepaid EBITDA	25,027	6,925	4,394	11,338
- Postpaid EBITDA	5,937	5,176	3,224	6,791
<b>EBITDA per user (Rs)</b>	<b>74</b>	<b>35</b>	<b>34</b>	<b>55</b>
<b>- Prepaid</b>	<b>62</b>	<b>21</b>	<b>21</b>	<b>36</b>
<b>- Postpaid</b>	<b>363</b>	<b>379</b>	<b>374</b>	<b>397</b>
Opex per user (Rs)	136	87	133	122
- Prepaid	135	86	132	122
- Postpaid	150	95	146	134

Assuming 10% higher (than the average) opex for postpaid subs

Source: TRAI, JM Financial

**Exhibit 1(d): Effect of 2% decline in subs and 10% decline in ARPU - postpaid**

Sep'10 Quarter (Rs mn)	Bharti	Rcom	Idea	Vodafone
<b>Total Revenue</b>	<b>169,914</b>	<b>70,605</b>	<b>39,668</b>	<b>125,524</b>
Wireless Revenue	88,045	41,613	36,891	58,350
- Prepaid revenue	79,659	35,138	32,411	49,259
- Postpaid revenue	8,386	6,475	4,480	9,092
Other segment revenue	81,869	28,992	2,777	67,174
<b>Total EBITDA</b>	<b>51,212</b>	<b>16,595</b>	<b>8,788</b>	<b>32,687</b>
Wireless EBITDA	30,964	12,101	7,618	18,129
- Prepaid EBITDA	25,027	6,925	4,394	11,338
- Postpaid EBITDA	5,937	5,176	3,224	6,791
Other segments EBITDA	20,248	4,494	1,170	14,558
<b>New Total Revenue</b>	<b>168,924</b>	<b>69,841</b>	<b>39,139</b>	<b>124,452</b>
Wireless revenue	87,055	40,849	36,362	57,278
- Prepaid	79,659	35,138	32,411	49,259
- Postpaid	7,396	5,711	3,951	8,019
Other segment revenue	81,869	28,992	2,777	67,174
<b>New EBITDA</b>	<b>50,271</b>	<b>15,857</b>	<b>8,284</b>	<b>31,660</b>
Wireless EBITDA	30,023	11,363	7,114	17,102
- Prepaid	25,027	6,925	4,394	11,338
- Postpaid	4,997	4,438	2,721	5,764
Other segment EBITDA	20,248	4,494	1,170	14,558
<b>Change</b>				
Wireless revenue	-1.12%	-1.84%	-1.43%	-1.84%
Wireless EBITDA	-3.04%	-6.10%	-6.61%	-5.66%

<b>Total revenue</b>	<b>-0.58%</b>	<b>-1.08%</b>	<b>-1.33%</b>	<b>-0.85%</b>
<b>Total EBITDA</b>	<b>-1.84%</b>	<b>-4.45%</b>	<b>-5.73%</b>	<b>-3.14%</b>

Source: TRAI, Company, JM Financial

IDEA is more sensitive to ARPU and subs decline

**Exhibit 1(e): Sensitivity of Bharti's EBITDA**

		Change in Customers				
		-1.8%	-4.0%	-2.0%	0.0%	2.0%
<b>Change in ARPU</b>	0.0%	-0.5%	-0.2%	0.0%	0.2%	0.5%
	-2.0%	-0.8%	-0.6%	-0.3%	-0.1%	0.1%
	-4.0%	-1.1%	-0.9%	-0.7%	-0.4%	-0.2%
	-6.0%	-1.4%	-1.2%	-1.0%	-0.8%	-0.6%
	-8.0%	-1.7%	-1.5%	-1.3%	-1.1%	-0.9%
	-10.0%	-2.0%	-1.8%	-1.6%	-1.4%	-1.2%
	-12.0%	-2.4%	-2.2%	-2.0%	-1.8%	-1.6%

Source: TRAI, Company, JM Financial

Even 4% decline in subs lead to only 0.5% erosion in EBITDA

**Exhibit 1(f): Sensitivity of Idea's EBITDA**

		Change in Customers				
		-5.73%	-4.0%	-2.0%	0.0%	2.0%
<b>Change in ARPU</b>	0.0%	-1.5%	-0.7%	0.0%	0.7%	1.5%
	-2.0%	-2.4%	-1.7%	-1.0%	-0.3%	0.4%
	-4.0%	-3.4%	-2.7%	-2.0%	-1.3%	-0.7%
	-6.0%	-4.4%	-3.7%	-3.1%	-2.4%	-1.7%
	-8.0%	-5.4%	-4.7%	-4.1%	-3.4%	-2.8%
	-10.0%	-6.4%	-5.7%	-5.1%	-4.5%	-3.8%
	-12.0%	-7.3%	-6.7%	-6.1%	-5.5%	-4.9%

Source: TRAI, Company, JM Financial

**Exhibit 2: India Telecom – Quality of Service**  
**Vodafone and Bharti leads**

Parameters	Operators	Airtel	Vodafone	Rcom	Idea	TTSL	BSNL	MTNL	Aircel
Provision of Service	Assam	98%	99%	96%		99%	95%		
	CG								
	Chennai	97%	98%	97%		97%	89%		99%
	Delhi	98%	98%	98%	93%	97%		93%	87%
	Gujarat	100%	99%	98%	99%	97%	100%		
	Haryana	94%	97%	97%	97%	96%	100%		
	Karnataka	93%	93%	95%	94%	94%	98%		96%
	NE	98%	100%	97%		98%	91%		98%
	Orissa	100%	98%	96%	97%	98%	96%		99%
	Punjab	93%	93%	92%	92%	94%	91%		
Rajasthan	94%	94%	94%	94%	92%	92%			
TN	98%	98%	97%	100%	97%	99%			99%
<b>Average</b>		<b>97%</b>	<b>97%</b>	<b>96%</b>	<b>96%</b>	<b>97%</b>	<b>95%</b>	<b>93%</b>	<b>96%</b>
Network Performance	Assam	93%	93%	76%		96%	89%		
	CG								
	Chennai	81%	80%	78%		78%	72%		79%
	Delhi	98%	97%	91%	92%	82%		86%	94%
	Gujarat	89%	95%	90%	95%	91%	76%		
	Haryana	99%	99%	95%	97%	87%	95%		
	Karnataka	75%	73%	72%	71%	69%	73%		69%
	NE	94%	85%	82%		95%	72%		90%
	Orissa	71%	68%	62%	69%	70%	67%		68%
	Punjab	100%	99%	99%	97%	99%	96%		
Rajasthan	96%	95%	94%	94%	94%	94%			
TN	75%	75%	74%	69%	74%	73%		74%	
<b>Average</b>		<b>88%</b>	<b>87%</b>	<b>82%</b>	<b>86%</b>	<b>84%</b>	<b>81%</b>	<b>86%</b>	<b>79%</b>
Good Voice Quality	Assam	93%	96%	98%		99%	96%		
	CG						85%		
	Chennai	95%	98%	98%	99%	98%	98%		98%
	Delhi	95%	98%	98%	98%	98%	98%		98%
	Gujarat	95%	98%		96%		96%		
	Haryana	99%	97%	98%	100%	98%	96%		
	Karnataka	98%	99%	99%	97%	95%	97%		98%
	NE	95%	98%	95%		99%	97%		92%
	Orissa	97%	99%	95%		99%	95%		97%
	Punjab	100%	98%	98%	98%	100%	98%		
Rajasthan	99%	97%	98%	98%	98%	98%			
TN	96%	97%	98%	99%	100%	99%		96%	
<b>Average</b>		<b>97%</b>	<b>98%</b>	<b>97%</b>	<b>98%</b>	<b>98%</b>	<b>96%</b>		<b>97%</b>
Billing Satisfaction	Assam	93%	94%	90%		95%	89%		
	CG								
	Chennai	79%	80%			80%	78%		79%
	Delhi	95%	95%	88%	86%	87%		95%	92%
	Gujarat	95%	95%	92%	97%	93%	99%		
	Haryana	98%	97%	92%	93%	93%	97%		
	Karnataka	74%	73%	73%	71%	73%	74%		75%
	NE	96%	96%	95%		92%	88%		93%
	Orissa	70%	69%	67%	69%	70%	70%		69%
	Punjab	95%	89%	85%	87%	87%	95%		
Rajasthan	94%	94%	94%	94%	90%	90%			
TN	73%	75%	74%	89%	77%	74%		74%	
<b>Average</b>		<b>87%</b>	<b>87%</b>	<b>84%</b>	<b>86%</b>	<b>85%</b>	<b>85%</b>	<b>95%</b>	<b>80%</b>
Help Satisfaction	Assam	89%	89%	69%		91%	84%		
	CG								
	Chennai	67%	64%			67%	63%		67%
	Delhi	100%	100%	100%	95%	100%		100%	100%
	Gujarat	87%	90%	85%	86%	85%	74%		
	Haryana	98%	97%	95%	95%	95%	97%		
	Karnataka	70%	67%	65%	66%	65%	69%		66%
	NE	81%	81%	72%		84%	74%		85%
	Orissa	62%	62%	58%	64%	62%	59%		60%
	Punjab	93%	92%	88%	95%	97%	90%		
Rajasthan	93%	91%	94%	94%	89%	89%			
TN	66%	68%	66%	73%	67%	65%		65%	
<b>Average</b>		<b>82%</b>	<b>82%</b>	<b>78%</b>	<b>84%</b>	<b>81%</b>	<b>76%</b>	<b>100%</b>	<b>74%</b>
Supplementary Services	Assam	76%	88%	89%		93%	94%		
	CG								
	Chennai	93%	91%			84%	85%		94%
	Delhi	91%	92%	82%	87%	83%		87%	86%
	Gujarat	91%	96%	94%	95%	92%	95%		
	Haryana	92%	99%	93%	96%	98%	96%		
	Karnataka	91%	95%	93%	89%	91%	92%		85%
	NE	85%	95%	95%		96%	83%		81%
	Orissa	90%	96%	74%	83%	80%	73%		86%
	Punjab	98%	94%	96%	95%	96%	97%		
Rajasthan	98%	93%		98%	97%	97%			
TN	83%	78%	75%	90%	75%	77%		75%	
<b>Average</b>		<b>90%</b>	<b>92%</b>	<b>88%</b>	<b>92%</b>	<b>89%</b>	<b>89%</b>	<b>87%</b>	<b>85%</b>

Source: TRAI, JM Financial

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