Monthly Sector Update

Indian Telecom Sector : GSM Operators

Key Highlights

- The GSM operators added 8.44 mn new subscribers in January 2012, taking the total GSM user base to 648.08 mn in the country, according to the COAI data. During the previous month the subscriber addition was 7.55 mn.
- Uninor added the most 2.49 mn subscribers in January 2012 taking its total subscriber base to 38.80 mn; on the other hand Idea Cellular added 1.75 mn new subscribers during the month to take its total subscriber base to 108.13 mn.
- Bharti added 1.3 mn subscribers, taking its total subscriber base to 176.95 mn users. The GSM subscriber market share of the company dropped marginally to 27.30% in January 2012 compared to 27.46% in December 2011.
- Vodafone Essar added 8.6 lakh users in January 2011 against 9.1 lakh addition in December 2011 to take the company's total subscriber base to 148.60 mn. The market share of the company dropped to 22.93% in January 2012 from 23.10% in the previous month.
- Aircel added 8.2 lakh new customers during January 2012 compared to 6.9 lakh in December 2011 while Videocon added 4.1 lakh customers taking its subscriber base to 5.85 mn.
- The subscribers from the 'B' and 'C' circle constituted 54% of the total GSM subscriber base in India. Both these category circles put together witnessed 4.69 mn subscriber additions during the month of January 2012 as compared to the previous month.
- The 'Metro' and 'A' circles added 3.76 mn subscribers during the month constituting 44% of the total subscriber net addition.
- Idea Cellular, Uninor and Videocon gained subscriber market share by 5 bps, 31 bps and 5 bps respectively during January 2012 to take their respective GSM subscriber market share to 16.68%, 5.99% and 0.9% respectively.
- The industry is set to witness significant change in the months ahead following the recent license cancellation order by the Supreme Court. The Supreme Court recently cancelled 122 2G licenses of many operators granted during 2008 by the former telecom minister A Raja.
- Incumbents continue to face huge regulatory uncertainty pertaining to the one time excess spectrum charges that the incumbents have to pay for spectrum they hold in excess of 6.2 MHz in each circles, legal validity of the 3G roaming agreement that the incumbents have entered among themselves for offering 3G services in circles where they do not have the required license and spectrum (issue is pending with TDSAT for final hearing) and various other issue.
- Despite such extreme regulatory uncertainty and flip-flop we are positive on the operational performance of the mobile operators under our coverage (Bharti Airtel and Idea Cellular). Maintain our 'Buy' rating on both Bharti Airtel and Idea Cellular with the target price of Rs 495 and Rs 133 respectively.

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The GSM subscriber additions improved during the month of January 2012 as compared to the previous month as the incumbent operators as well as the new operators added users in the 'B' and 'C' circles. Rather the subscriber growth in January 2012 was the highest since June 2011. The total GSM subscriber base at the end of January 2011 increased 1.32% (adding 8.44 mn subscribers) to 648.08 mn subscribers. The M-o-M subscriber net addition growth during the month was also impressive at 11.8%. But the industry structure is set to witness significant change in the months ahead following the recent license cancellation order by the Supreme Court.

The Supreme Court recently cancelled 122 2G licenses granted during the period by the former telecom minister A Raja. The affected companies whose licenses are cancelled include Uninor (joint venture between Unitech and Telenor of Norway), Sistema-Shyam (joint venture between Shyam Telecomand Sistema of Russia), Videocon, Loop Telecom, Idea Cellular, Etisalat DB (joint venture between DB Realty and Etisalat of UAE) among others.

Now many of these operators may choose to shut down their operation completely in the next few months, thus bringing down the number of operators in each circle. The existing operators may witness significant subscriber port-ins in the months ahead. Even subscribers with the operators who choose to contend the Supreme Court order will choose to port out. We see this as a major bonanza for operators like Idea Cellular, Reliance Communication and Aircel who has been aggressively adding subscribers since the introduction of mobile number portability (MNP); for the incumbents however we believe its not going to have any major impact. The government would gain though from the auction of these cancelled license and freed spectrum.

Incumbents continue to face huge regulatory uncertainty pertaining to the one time excess spectrum charges that the incumbents have to pay for spectrum they hold in excess of 6.2 MHz in each circles, legal validity of the 3G roaming agreement that the incumbents have entered among themselves for offering 3G services in circles where they do not have the required license and spectrum (issue is pending with TDSAT for final hearing) and various other issue. On the excess spectrum payment front, there is further uncertainty on the pricing front as the Department of Telecom (DoT) mulls Telecom regulatory authority of India (TRAI) recommended price or the new price that would be discovered in the forthcoming auction of the 2G spectrum. On the 3G roaming legality front, the DoT and the TDSAT continues to bicker on the latter's jurisdiction to hear the case.

The GSM operators continued to witness subscriber growth especially from the tier II cities and rural markets where the mobile penetration is still low. The subscribers from the 'B' and 'C' circle constituted 54% of the total GSM subscriber base in India. Both these category circles put together witnessed 4.69 mn subscriber additions during the month of January 2012 as compared to the previous month. The 'Metro' and 'A' circles added 3.76 mn subscribers during the month constituting 44% of the total subscriber net addition. Although the industry continues to witness subscriber addition month after month, the growth in the metro and 'A' circles have fallen considerably. This is primarily due to the saturation level in several circles where the mobile penetration has exceeded 100% mark. We see the industry consolidating going ahead and the number of operators per circle falling as a result we see improvement in subscriber market shares of incumbents. During January 2012 Bharti Airtel, Vodafone and BSNL continued to witness fall in subscriber market share, while smaller operators like Idea Cellular, Uninor and Videocon increased market share.

For e.g. smaller operators like Idea Cellular, Uninor and Videocon gained subscriber market share by 5 bps, 31 bps and 5 bps respectively during January 2012 to take their respective GSM subscriber market share to 16.68%, 5.99% and 0.9% respectively. On the other hand the incumbent operators like Bharti Airtel and Vodafone lost GSM subscriber market share by 16 bps and 17 bps to take their respective market share to 27.30% and 22.93% respectively. Now that the competitive intensity is low, subsequent price increase (tariff hikes) is expected to be absorbed comfortably. We see healthy improvement in price going ahead, while pick-up in the data and 3G business for incumbent operators is expected to improve the blended average revenue per minute (ARPM) of leading operators going ahead. The subscriber acquisition cost and network operation & expansion cost is expected to be on the higher side. ***Despite such extreme regulatory uncertainty and flip-flop we are positive on the operational performance of the mobile operators under our coverage (Bharti Airtel and Idea Cellular). Maintain our 'Buy' rating on both Bharti Airtel and Idea Cellular with the target price of Rs 495 and Rs 133 respectively.***

Sector Overview

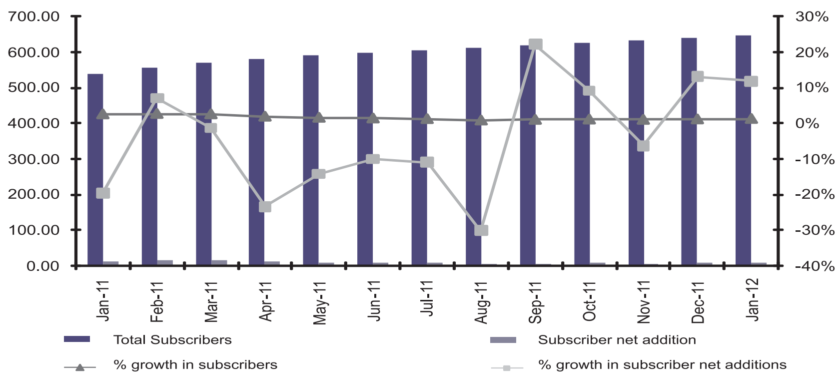
As per Telecom Regulatory Authority of India (TRAI) data, the total telecom subscribers in India (GSM + CDMA + Wire-line) at the end of December 2011 rose by 9.20 mn subscribers to 926.53 mn as compared to November 2011. TRAI is yet to release the data for January 2012. The total wireless subscriber base (GSM + CDMA) in the metros and 'A' circle as at the end of December 2011 stood at 418.03 mn as compared to 413.45 mn during November 2011, while the total subscriber base in the 'B' and 'C' circles stood at 361.12 mn and 114.70 mn respectively, up 3.33 mn M-o-M and 1.57 mn M-o-M respectively.

As per the TRAI's data, India's total tele-density increased to 76.86% as at the end of December 2011, as against 76.18% as at the end of November 2011, while the wireless tele density in the country as at the end of December 2011 rose to 74.15%, as against 73.44% at the end of November 2011. The urban wireless tele-density increased to 161.01%, while the rural wireless tele-density at the end of December 2011 increased to 36.56%.

As per the TRAI's report, the number of actual active subscribers, based on the Visitor Location Register (VLR) as at the end of December 2011, was 646.77 mn, as against the total wireless subscriber base as on that date of 893.84 mn.

Broadband subscriber base increased marginally from 13.13 mn in November 2011 to 13.30 mn in December 2011.

Total wireless GSM subscribers net additions & growth



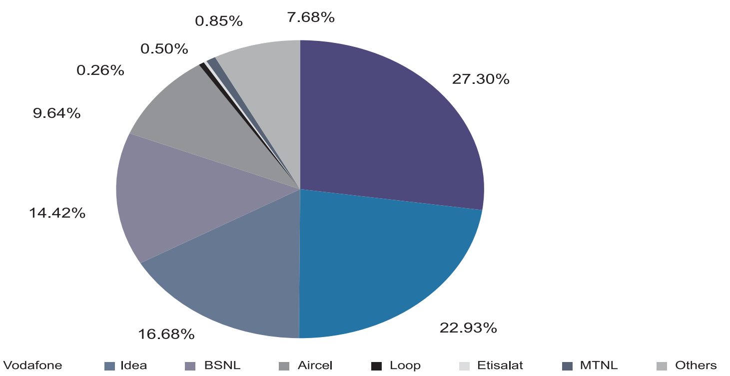
Source: TRAI, COAI, FQ Research

Circle wise wireless (GSM) subscriber numbers as at the end of Jan 2012

Circle	Subscribers (mn) Jan-12	Net subscriber Additions (mn) (M-o-M) Jan-12	Growth in wireless subscribers M-o-M	Growth in net subscriber additions % M-o-M
Metro & 'A' Circle				
Delhi	27.34	0.43	1.61%	71.52%
Mumbai	22.65	0.24	1.08%	79.44%
Kolkatta	15.30	0.21	1.40%	-28.45%
Tamil Nadu	61.38	0.74	1.22%	35.05%
Andhra Pradesh	48.20	0.44	0.93%	-5420.98%
Karnataka	37.31	0.62	1.68%	23.23%
Maharashtra	48.22	0.70	1.47%	-39.58%
Gujarat	39.08	0.37	0.96%	-48.48%
B' Circle				
Punjab	22.15	0.17	0.75%	-43.16%
Uttar Pradesh (East)	54.86	0.98	1.81%	51.28%
Uttar Pradesh (West)	37.31	0.51	1.37%	20.16%
Haryana	14.47	0.23	1.59%	-253.79%
Madhya Pradesh	33.14	0.49	1.49%	49.34%
Kerala	26.69	0.06	0.22%	-84.58%
Himachal Pradesh	5.53	0.01	0.24%	-79.38%
Rajasthan	33.92	0.72	2.17%	32.43%
West Bengal	32.83	0.30	0.93%	-29.56%
C' Circle				
Assam	11.09	0.04	0.34%	-53.18%
Bihar	45.48	0.77	1.72%	41.93%
Jammu & Kashmir	5.39	0.09	1.74%	151.09%
North East	7.12	-0.05	-0.72%	-261.38%
Orissa	18.62	0.39	2.12%	26.41%
Total	**648.08**	**8.44**	**1.32%**	**11.80%**

Source: COAI, FQ Research

GSM Operator's subscriber market share as at the end of Jan 2012



Source: TRAI, COAI, FQ Research

GSM Operator-wise subscriber market share & net additions

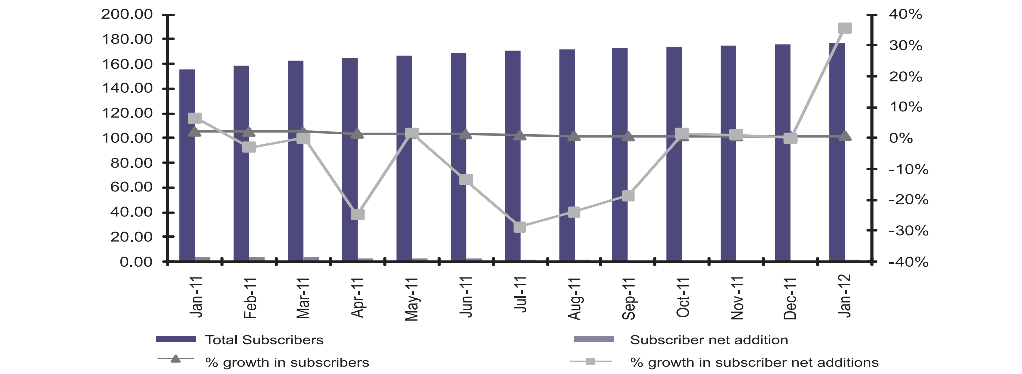
Service provider	Subscribers (mn) Jan-12	Subscriber market share Jan-12	Net Additions (mn) Jan-12	Share of net additions Jan-12	Change in market share (M-o-M)
Bharti	176.95	27.30%	1.30	15.41%	-0.16%
Vodafone	148.60	22.93%	0.86	10.13%	-0.17%
Rcom	0.00	0.00%	0.00	0.00%	0.00%
Idea	108.13	16.68%	1.75	20.69%	0.05%
Tata	0.00	0.00%	0.00	0.00%	0.00%
BSNL	93.43	14.42%	0.86	10.19%	-0.06%
Aircel	62.46	9.64%	0.82	9.68%	0.00%
Loop	3.25	0.50%	0.01	0.12%	0.00%
Etisalat	1.69	0.26%	0.02	0.27%	0.00%
HFCL	0.00	0.00%	0.00	0.00%	0.00%
MTNL	5.49	0.85%	0.05	0.59%	0.00%
Sistema	0.00	0.00%	0.00	0.00%	0.00%
Stel	3.43	0.53%	-0.12	-1.41%	-0.03%
Unitech	38.80	5.99%	2.49	29.51%	0.31%
Videocon	5.85	0.90%	0.41	4.81%	0.05%
Total	**648.08**	**100.00%**	**8.44**	**100.00%**	

Source: COAI, FQ Research

Bharti Airtel

Bharti Airtel added 1.30 mn subscribers in January 2012, as against 0.96 mn subscribers added in December 2011, thus taking its total wireless subscriber base to 176.95 mn. The company added 0.38 mn subscribers in the metros and 'A' circle, while it added 0.61 mn and 0.31 mn subscribers in the 'B' and 'C' circle. The company has been witnessing sharp fall in the growth of subscriber net addition during the past few months, as a result the subscriber market share of the company has been on a downward trajectory. In most of the major circles the company subscriber market share declined during January 2012 as compared to the previous month. We do not believe that Bharti Airtel would be impacted positively from the cancellation of the 2G license of the operators to whom licenses were issued in 2008, except that there would be some relief in competitive intensity.

Bharti Airtel's wireless subscribers net additions & growth



Source: COAI, FQ Research

Bharti Airtel's circle-wise monthly performance analysis (Jan 2012)

Circle	Subscribers Jan-12	Circle market share (Jan-12)	Rank in Circle	Change in market share (M-o-M)	No.of operators/circle (Jan-12)
Metro & 'A' Circle					
Delhi	8.59	31.42%	2	-0.27%	9
Mumbai	3.71	16.40%	4	-0.15%	12
Kolkatta	3.8	24.85%	3	-0.28%	11
Tamil Nadu	13.27	21.61%	2	-0.23%	11
Andhra Pradesh	17.9	37.14%	1	-0.13%	11
Karnataka	15.28	40.95%	1	-0.60%	12
Maharashtra	9.45	19.60%	5	0.00%	12
Gujarat	6.81	17.44%	4	-0.14%	12
B' Circle					
Punjab	6.93	31.27%	1	-0.21%	12
Uttar Pradesh (East)	14.02	25.55%	2	-0.01%	11
Uttar Pradesh (West)	6.63	17.76%	4	-0.23%	11
Haryana	2.28	15.73%	6	-0.23%	12
Madhya Pradesh	9.6	28.98%	3	-0.41%	12
Kerala	3.5	13.12%	4	-0.02%	11
Himachal Pradesh	1.78	32.12%	2	-0.01%	11
Rajasthan	13.77	40.59%	1	0.00%	12
West Bengal	9.03	27.52%	2	-0.12%	10
C' Circle					
Assam	3.57	32.15%	2	0.16%	10
Bihar	16.82	36.98%	1	-0.41%	13
Jammu & Kashmir	2.03	37.60%	1	-0.40%	8
North East	2.19	30.83%	2	0.38%	10
Orissa	6	32.23%	1	0.19%	12
Total	**176.95**	**27.30%**	**1**	**-0.16%**	**15**

Source: COAI, FQ Research

Vodafone

Vodafone added 0.86 mn subscribers in January 2012 to take its total subscriber base to 148.60 mn. In the 'Metro' and 'A' circles the company added 40k subscribers in January 2012 to take its total subscribers there to 72.84 mn, while in the 'B' and 'C' circles the company added 0.66 mn subscribers and 0.16 mn subscribers respectively to take the total subscribers there to 63.89 mn and 11.87 mn. The company lost subscriber market share in all the 'Metro' and 'A' circles during January 2012. Overall the company lost 17 bps subscriber market share in January 2012, to take its total GSM subscriber market share to 22.93%.

Vodafone's wireless subscribers net additions & growth

Source: COAI, FQ Research

Vodafone India's circle-wise monthly performance analysis (Jan 2012)

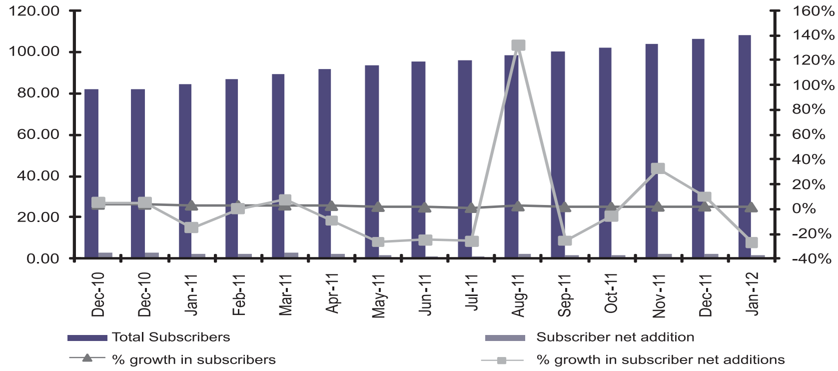
Circle	Subscribers Jan-12	Circle market share (Jan-12)	Rank in Circle	Change in market share (M-o-M)	No.of operators/circle (Jan-12)
Metro & 'A' Circle					
Delhi	8.34	30.51%	3	-0.23%	9
Mumbai	6	26.50%	2	-0.74%	12
Kolkatta	4.45	29.05%	2	-0.57%	11
Tamil Nadu	12.24	19.93%	3	-0.10%	11
Andhra Pradesh	6.78	14.08%	6	-0.70%	11
Karnataka	6.61	17.73%	6	-0.24%	12
Maharashtra	12.66	26.25%	2	-0.19%	12
Gujarat	15.76	40.33%	1	0.02%	12
B' Circle					
Punjab	4.45	20.11%	5	0.01%	12
Uttar Pradesh (East)	14.56	26.54%	1	-0.25%	11
Uttar Pradesh (West)	9.46	25.37%	3	-0.21%	11
Haryana	4.34	30.02%	1	-0.30%	12
Madhya Pradesh	3.79	11.44%	6	0.14%	12
Kerala	5.83	21.83%	2	0.01%	11
Himachal Pradesh	0.42	7.64%	8	0.05%	11
Rajasthan	9.41	27.74%	2	0.13%	12
West Bengal	11.62	35.39%	1	-0.14%	10
C' Circle					
Assam	1.95	17.60%	4	0.20%	10
Bihar	5.8	12.75%	3	-0.02%	13
Jammu & Kashmir	0.69	12.73%	4	0.04%	8
North East	0.92	12.88%	4	-0.19%	10
Orissa	2.51	13.50%	5	-0.04%	12
Total	**148.6**	**22.93%**	**3**	**-0.17%**	**15**

Source: COAI, FQ Research

Idea Cellular

Idea Cellular's licenses too were cancelled by the Supreme court, however we expect a favorable review order on the same as the company's license applications were made in 2006. We believe Idea Cellular would be the major beneficiary from the 2G license cancellation of many operators as it has been very active in subscriber pouching post the launch of MNP. While the larger players have been losing subscriber market share, Idea Cellular has been gaining subscriber market share during the past several months especially from the circles where it has launched services recently. The subscribers on the company's network increased by 1.75 mn in January 2012 to 108.13 mn. Major subscriber addition for the company happened in the 'Metro' and 'A' circles where it added 0.81 mn subscribers to take the total subscribers there to 48.47 mn. The 'B' and 'C' circles added 0.72 mn subscribers and 0.21 mn subscriber respectively. The company lost GSM subscriber market shares in the important circles of Maharashtra, Tamil Nadu and Gujarat during the month. Overall the GSM subscriber market share of the company in January 2012 rose 5 bps to 16.68% as at the end of January 2012.

Idea Cellular's wireless subscribers net additions & growth



Source: COAI, FQ Research

Idea Cellular's circle-wise monthly performance analysis (Jan 2012)

Circle	Subscribers Jan-12	Circle market share (Jan-12)	Rank in Circle	Change in market share (M-o-M)	No.of operators/circle (Jan-12)
Metro & 'A' Circle					
Delhi	4.59	16.77%	5	0.59%	9
Mumbai	2.82	12.45%	7	0.28%	12
Kolkatta	1.21	7.91%	8	0.08%	11
Tamil Nadu	2.02	3.29%	7	-0.08%	11
Andhra Pradesh	9.62	19.97%	2	0.07%	11
Karnataka	5.53	14.82%	6	0.23%	12
Maharashtra	14.97	31.05%	1	-0.19%	12
Gujarat	7.71	19.74%	3	-0.03%	12
B' Circle					
Punjab	5.19	23.45%	2	0.24%	12
Uttar Pradesh (East)	7.05	12.86%	5	-0.08%	11
Uttar Pradesh (West)	10	26.79%	2	0.08%	11
Haryana	3.43	23.71%	3	-0.19%	12
Madhya Pradesh	13.32	40.18%	1	-0.09%	12
Kerala	7.4	27.73%	1	-0.14%	11
Himachal Pradesh	0.43	7.76%	7	0.00%	11
Rajasthan	3.76	11.09%	6	0.17%	12
West Bengal	1.98	6.02%	8	0.17%	10
C' Circle					
Assam	0.29	2.59%	6	-0.17%	10
Bihar	5.48	12.04%	5	0.15%	13
Jammu & Kashmir	0.16	3.02%	6	0.05%	8
North East	0.19	2.70%	6	-0.15%	10
Orissa	0.98	5.24%	9	0.28%	12
Total	**108.13**	**16.68%**	**4**	**0.05%**	**15**

Source: COAI, FQ Research

Annexure

Circle-wise subscriber market share of operators (GSM) as on Jan 2012

Circle	Bharti	Vodafone	Rcom	Idea	Tata	BSNL	Aircel	Loop	MTNL	Others
Metro & 'A' Circle										
Delhi	31.42%	30.51%	0.00%	16.77%	0.00%	0.00%	8.65%	0.00%	9.87%	2.78%
Mumbai	16.40%	26.50%	0.00%	12.45%	0.00%	0.00%	5.31%	14.31%	12.34%	12.69%
Kolkatta	24.85%	29.05%	0.00%	7.91%	0.00%	15.45%	11.61%	0.02%	0.00%	11.12%
Tamil Nadu	21.61%	19.93%	0.00%	3.29%	0.00%	14.84%	35.63%	0.00%	0.00%	4.71%
Andhra Pradesh	37.14%	14.08%	0.00%	19.97%	0.00%	18.13%	4.06%	0.00%	0.00%	6.62%
Karnataka	40.95%	17.73%	0.00%	14.82%	0.00%	16.86%	4.64%	0.00%	0.00%	5.00%
Maharashtra	19.60%	26.25%	0.00%	31.05%	0.00%	12.04%	2.50%	0.00%	0.00%	8.56%
Gujarat	17.44%	40.33%	0.00%	19.74%	0.00%	9.93%	1.51%	0.00%	0.00%	11.05%
B' Circle										
Punjab	31.27%	20.11%	0.00%	23.45%	0.00%	21.15%	3.94%	0.00%	0.00%	0.08%
Uttar Pradesh (East)	25.55%	26.54%	0.00%	12.86%	0.00%	17.75%	4.31%	0.00%	0.00%	12.98%
Uttar Pradesh (West)	17.76%	25.37%	0.00%	26.79%	0.00%	12.24%	5.46%	0.00%	0.00%	12.38%
Haryana	15.73%	30.02%	0.00%	23.71%	0.00%	20.51%	4.03%	0.00%	0.00%	6.00%
Madhya Pradesh	28.98%	11.44%	0.00%	40.18%	0.00%	13.14%	2.52%	0.00%	0.00%	3.74%
Kerala	13.12%	21.83%	0.00%	27.73%	0.00%	24.62%	9.05%	0.00%	0.00%	3.65%
Himachal Pradesh	32.12%	7.64%	0.00%	7.76%	0.00%	30.31%	12.52%	0.00%	0.00%	9.65%
Rajasthan	40.59%	27.74%	0.00%	11.09%	0.00%	16.29%	4.14%	0.00%	0.00%	0.14%
West Bengal	27.52%	35.39%	0.00%	6.02%	0.00%	10.60%	9.33%	0.00%	0.00%	11.15%
C' Circle										
Assam	32.15%	17.60%	0.00%	2.59%	0.00%	13.52%	33.41%	0.00%	0.00%	0.72%
Bihar	36.98%	12.75%	0.00%	12.04%	0.00%	12.40%	11.18%	0.00%	0.00%	14.65%
Jammu & Kashmir	37.60%	12.73%	0.00%	3.02%	0.00%	17.42%	29.23%	0.00%	0.00%	0.00%
North East	30.83%	12.88%	0.00%	2.70%	0.00%	19.82%	33.32%	0.00%	0.00%	0.45%
Orissa	32.23%	13.50%	0.00%	5.24%	0.00%	22.43%	14.82%	0.01%	0.00%	11.77%
Total	**27.30%**	**22.93%**	**0.00%**	**16.68%**	**0.00%**	**14.42%**	**9.64%**	**0.50%**	**0.85%**	**7.68%**

Source: TRAI, COAI, AUSPI, FG Research

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