

Equities

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India Wireless

TRAI's response to the DoT – Recos Remain Broadly Unchanged But Are Now Priced In

■ Industry Overview

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- **TRAI broadly sticks to its earlier recommendations** – TRAI today gave a detailed response to DoT's queries on its May-10 and Feb-11 recos relating to spectrum (allocation criteria), pricing and M&A. It has broadly stuck to earlier recos on charging for excess spectrum, license renewals, spectrum refarming and lowering of license fees. M&A rules have also expectedly been relaxed. Other recos include leaving the old sub-linked criteria open (for some-time) and charging license fees from towercos.
- **BS hit from spectrum charges but expected** – TRAI has recommended using its Feb-11 estimate of 1800MHz band value (900MHz at 1.5x) for calculating excess spectrum charges (beyond 6.2MHz) and license renewals. We estimate one-time excess spectrum charge for Bharti/Idea at Rs34bn/13bn respectively. Hit could be higher if contracted spectrum is defined as 4.4MHz (DoT to decide). The impact of license renewal comes in at Rs129bn (Bharti) and Rs95.6bn (Idea). Overall hit for Bharti is Rs31/shr (Rs24/share in our estimate) and Rs23/shr for Idea (Rs17). There has been some relaxation in the M&A rules – cap on mkt share (AGR/Sub) has been raised to 35% (30% earlier; 35-60% would need TRAI's approval) and total spectrum is capped at 25% of overall assigned (14.4MHz earlier). However the additional one-time fee (for spectrum) still remains a big deterrent.
- **Sub-linked allocation and refarming: 2 negatives but unlikely to go through** – TRAI has proposed keeping the old sub linked criteria operational for another 6 months, which would not only help new entrants get to 6.2MHz easily but also increases risks of another round of high competition to acquire multi-SIM subs (benefits new entrants/dual-tech operators). We however believe that the DoT is unlikely to adopt this and instead follow the auction route for all future allotment. Spectrum refarming continues to form part of the recos but will only come through after a consultative process. Besides, given the limited availability of 1800MHz spectrum, it will be difficult to implement.
- **Lower license fees is a positive** – TRAI has stuck to its recos of shifting to a lower uniform license fee of 6% (DoT wants this at 8.5%) in a phased manner (till 2016) besides giving additional benefit of a 2% cut post meeting coverage requirement (90% in areas with 2000-5000 population). This will result in ~3% cumulative benefit. Charging towercos license fees however is somewhat negative (3% in 2013 going to 6% by 2016).
- **Though the TRAI recos will need to be accepted by the DoT, we believe that most of these will form part of the final policy. Negatives related to spectrum charges have already been included in the fair value and the practical implementation of spectrum refarming looks difficult. M&A rules are still not favorable despite getting relaxed though we expect the DoT to dilute them further.**

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Figure 1. Rollout obligations

Time	Villages with population >10000	Villages with population 5000-10000	Villages with population 2000-5000
2 years from effective date	100%	50%	-
3 years from effective date	100%	100%	50%
4 years from effective date	100%	100%	100%

Source: TRAI

Figure 2. Revised license fees (% of AGR)

	2012-13	2013-14	2014-15	2015-16
Metro	10%	9%	8%	6%
Category 'A'	9%	8%	7%	6%
Category 'B'	7%	6%	6%	6%
Category 'C'	6%	6%	6%	6%
ISP	3%	4%	5%	6%
IP-I	3%	4%	5%	6%

Source: TRAI

Figure 3. Excess spectrum charges

Rs m	Bharti	Idea
Delhi	2,347	2,472
Mumbai	2,596	-
Kolkata	171	-
Maharashtra	4,119	4,119
Gujarat	-	-
AP	4,967	1,944
Karnataka	4,774	-
TN inc Chennai	3,195	-
Kerala	-	1,045
Punjab	1,083	1,300
Haryana	-	-
UP W	-	1,136
UP E	2,231	-
Rajasthan	1,673	-
MP	2,519	1,145
WB	-	-
HP	-	-
Bihar	3,227	-
Orissa	923	-
Assam	-	-
NE	-	-
J&K	288	-
Total Charges	34,116	13,162

Source: TRAI

Figure 4. License renewal fees (for circles coming up for renewal in 2015) - Bharti

	Total amount (Rs m)
Delhi	25,667
Kolkata	3,925
AP	29,403
Karnataka	24,354
TN inc Chennai	24,399
Punjab	8,851
Rajasthan	12,151
HP	579
Total	129,329

Source: TRAI

Figure 5. License renewal fees (for circles coming up for renewal in 2015) - Idea

	Total amount (Rs m)
Maharashtra	23,739
Gujarat	9,292
AP	17,309
Karnataka	8,442
Kerala	8,766
Punjab	8,851
Haryana	899
UP W	8,273
MP	10,018
Total	95,588

Source: TRAI

Appendix A-1

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