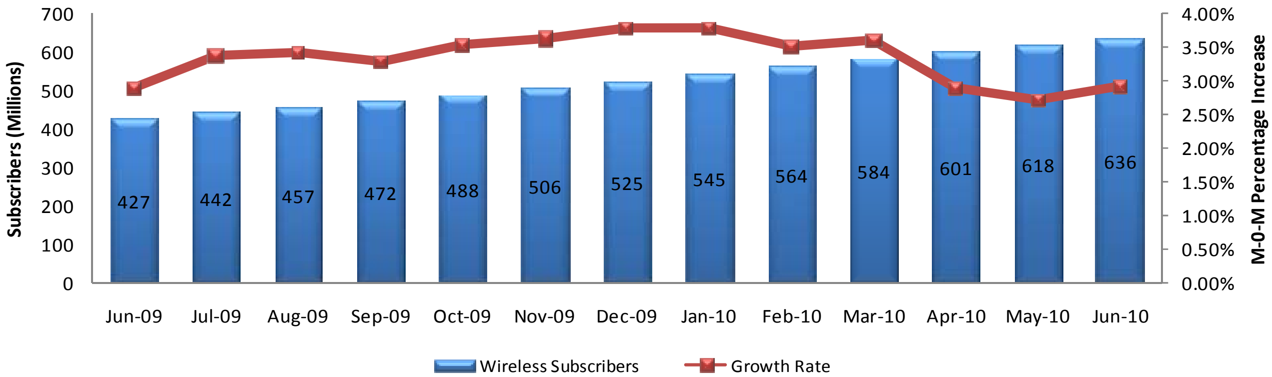
Telecommunications Monthly Update – June 2010

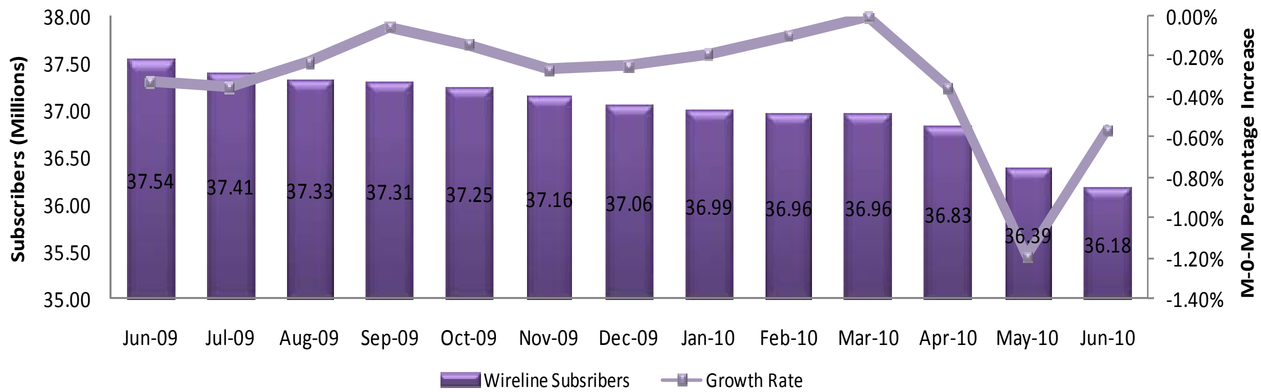
After a lull in subscriber addition for last two months, Indian telecommunication industry had a relatively stronger growth in the subscriber addition in June 2010. Increased presence of new private players due to their recent launches in various circles, also contributed to subscriber addition.

	June 2010	May 2010
Wireless Subscriber Base (mn)	635.51	617.53
Wireline Subscriber Base (mn)	36.18	36.39
Total Subscriber Base (mn)	**671.69**	**653.92**

- The number of telecom subscribers in India increased to 671.69 mn at the end of June -2010 from 653.92 mn in May-2010.
- The overall Tele-density of India increased from 55.38% to 56.83% over last one month.



- After a fall in wireless subscriber additions for last two months, June -2010 saw a strong addition at 17.98 mn wireless subscribers, taking the total wireless subscriber base to 635.51 mn
- Wireless Tele-density now stands at 53.77%.



- Wireline segment saw a reduction in its subscriber base by 0.21 mn during June-2010, reducing the overall wireline subscriber base to 36.18 mn
- The wireline tele-density reduced to 3.06% in June-2010 from 3.08% in May-2010

All India Subscriber Base (Includes Wireless and Wireline)

Market Players	June 2010 Subscribers (000's)	Net Additions (000's)	M-o-M Growth	Y-o-Y Growth	Market Share	Share of net addition
Bharti Airtel	139,773	3,036	2.2%	32.9%	20.8%	17.1%
Reliance Communications	111,997	2,838	2.6%	3.5%	16.7%	16.0%
Vodafone Essar	109,061	2,713	2.6%	3.5%	16.2%	15.3%
BSNL	99,635	751	0.8%	19.8%	14.8%	4.2%
Tata Teleservices	73,734	2,338	3.3%	6.1%	11.0%	13.2%
Idea Cellular	68,887	2,159	3.2%	4.6%	10.3%	12.2%
Aircel	41,680	1,600	4.0%	7.3%	6.2%	9.0%
MTNL	8,696	45	0.5%	0.5%	1.3%	0.3%
Uninor	6,024	1,011	20.2%	-	0.9%	5.7%
Sistema Shyam Teleservices	5,139	466	10.0%	35.8%	0.8%	2.6%
Loop Telecom	2,927	15	0.5%	0.7%	0.4%	0.1%
Videocon	1,942	548	39.3%	-	0.29%	3.08%
Stel	1,327	93	7.56%	-	0.2%	0.52%
HFCL Infotel	847	149	21.4%	27.2%	0.13%	0.84%
Etisalat	18	8.07	79.8%	-	0.0%	0.05%
All India Subscribers	671,685	17,770	2.7%	44.5%	100.0%	100.0%

- Bharti Airtel maintained its market leadership position by maintaining its momentum of subscriber addition. During June, 2010, it added 3.04 mn subscribers taking its total base to 139.77 mn subscribers with a market share of 20.8%
- Reliance Communications strengthened its position by the addition of 2.84 mn subscriber during the month while Vodafone Essar had 109.06 mn subscribers at the end of June-10 witnessing a m-o-m growth of 2.6%.
- Tata Teleservices added 2.34 mn subscribers during June-2010 while Idea Cellular had a strong 3.2% m-o-m growth
- Aircel had 41.68 million subscribers in June-2010 achieving a growth rate of 4.0% m-o-m. Aircel also increased its presence by launching operations in Haryana and Madhya Pradesh Circles.
- Uninor added 1.01 mn subscribers during the month, having a 20.2% m-o-m growth. This splendid performance was on the back of the launch of its operations in Mumbai, Maharashtra, Gujarat, Kolkata and West Bengal Circles
- Videocon Telecommunications had 1.94 mn subscribers at the end of June-2010 with 39.3% m-o-m growth rate
- Sistema Shyam Teleservices added 0.47 mn subscribers during the month, taking the total base to 5.14 mn subscribers
- Category A and B circles continue to dominate subscriber additions, adding 12.97 mn subscribers (over 72% of industry net additions) while Metro circles had the highest growth rate in subscriber additions

Operator wise Wireless Subscriber Base (millions)

	Jun-10	May-10	Apr-10	Mar-10	Feb-10	Jan-10	Dec-09	Nov-09	Oct-09	Sep-09	Aug-09	Jul-09	Jun-09
Bharti Airtel	136.6	133.6	130.6	127.6	124.6	121.7	118.9	116.0	113.2	110.5	108.0	105.2	102.4
Reliance Communications	110.8	108.0	105.2	102.4	99.4	96.6	93.8	91.0	88.2	86.1	84.1	82.0	79.6
Vodafone Essar	109.1	106.3	103.8	100.9	97.2	94.1	91.4	88.6	85.8	82.8	80.9	78.7	76.4
BSNL	72.7	71.7	70.6	69.5	66.8	65.1	62.9	60.8	59.4	58.8	57.3	56.0	54.4
Idea Cellular	68.9	66.7	65.3	63.8	62.1	59.9	57.6	55.9	53.4	51.5	50.1	48.5	47.1
Tata Teleservices	72.5	70.2	67.9	65.9	63.2	60.3	57.3	54.0	50.7	46.8	42.8	39.4	37.1
Aircel	41.7	40.1	38.5	36.9	34.9	33.0	31.0	29.4	27.7	25.7	24.4	23.1	21.8
Others	23.2	20.9	19.4	17.3	15.8	14.2	12.3	10.4	9.9	9.5	9.2	8.8	8.5
Total	635.5	617.5	601.2	584.3	564.0	545.0	525.1	506.0	488.4	471.7	456.7	441.7	427.3

- Market Leader Bharti Airtel clocked a growth rate of over 32.9% y-o-y while Idea Cellular had a relatively stronger m-o-m growth at 3.2%
- Tata Teleservices and Aircel gained market share at the cost of incumbent operators who had a marginal decline in their market share on a m-o-m basis

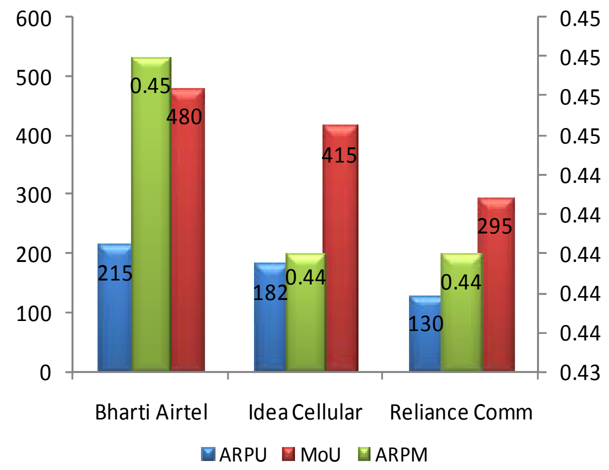
Operator Wise Wireless Net Additions (millions)

	Jun-10	May-10	Apr-10	Mar-10	Feb-10	Jan-10	Dec-09	Nov-09	Oct-09	Sep-09	Aug-09	Jul-09	Jun-09
Bharti Airtel	3.0	3.0	3.0	3.0	2.9	2.9	2.9	2.8	2.7	2.5	2.8	2.8	2.8
Reliance Communications	2.8	2.8	2.7	3.0	2.8	2.8	2.8	2.8	2.1	2.0	2.1	2.4	2.4
Vodafone Essar	2.7	2.6	2.9	3.6	3.1	2.7	2.8	2.8	3.0	2.0	2.2	2.2	2.4
BSNL	1.0	1.1	1.2	2.7	1.6	2.2	2.1	1.3	0.7	1.5	1.3	1.6	0.8
Idea Cellular	2.2	1.4	1.5	1.7	2.3	2.3	1.7	2.6	1.9	1.4	1.5	1.4	1.6
Tata Teleservices	2.3	2.3	1.9	2.8	2.8	3.0	3.3	3.3	3.9	4.0	3.4	2.3	0.6
Aircel	1.6	1.6	1.6	2.0	1.8	2.0	1.7	1.6	2.0	1.3	1.3	1.3	1.1
Others	2.3	1.5	2.1	1.5	1.7	1.9	1.9	0.5	0.4	0.3	0.3	0.4	0.3
Total	18.0	16.3	16.9	20.3	19.0	19.8	19.1	17.6	16.7	15.0	15.1	14.4	12.0

- Bharti Airtel added the highest number of subscribers at 3 mn while Reliance Communication came in second with 2.8 mn subscriber additions.
- Idea Cellular added 2.2 mn subscribers during June, 2010 against 1.4 mn subscriber addition during May, 2010
- BSNL had a reduced share in subscriber addition at 1.0 mn during the month

Quarterly Results Overview

	Bharti Airtel	Idea Cellular	Reliance Comm.
Subscribers (mn)	136.62	68.90	110.81
Q-o-Q	7.05%	7.99%	8.19%
Y-o-Y	33.46%	60.98%	39.18%
Revenue (Crs.)	12230.80	3653.70	5068.50
Q-o-Q	13.89%	9.14%	4.00%
Y-o-Y	17.27%	22.78%	-13.25%
EBITDA (Crs.)	4488.90	888.38	1591.34
Margin	36.70%	24.31%	31.40%
PAT Margin	13.75%	5.51%	5.91%
PAT Growth	1681.60	201.40	299.46
Q-o-Q	-16.92%	-24.46%	-72.03%
Y-o-Y	-36.49%	-32.20%	-82.60%



The quarter ended June 2010 witnessed a growth in the top-line of the incumbent players. This indicates that these players are able to maintain customer base because of pan India presence as well as better service quality. Idea Cellular's EBITDA margin declined 328 bps due to increased spectrum fees after its launches to achieve a pan India presence. Bharti Airtel's EBITDA margin remained flat, while Reliance Communications' EBITDA margin increased by 197 bps. PAT margins took a hit for all the companies because of the increased interest expense on the additional debt raised to fund 3G spectrum auction.

Average Revenue Per User (ARPU) witnessed a modest decline after the tariff war which started last year has eased. At the same time, Minutes of Usage (MoU) for Bharti Airtel and Idea Cellular has seen an uptake since last two quarters, indicating that these companies are able to grab a bigger pie of the customer usage backed by their service strengths.

Valuation Ratios

Parameters	Bharti Airtel	Idea Cellular	Reliance Comm.
Earnings per Share(TTM)	21.59	2.68	15.84
Price (CMP)	315.15	69.80	164.05
Price/Earnings (x)	14.60	26.07	10.36
Price/Book value (x)	2.75	1.98	0.87
Enterprise Value (EV) (Cr.)	172287	32687	62342
EV/Sales (x)	3.95	2.49	3.01
EV/EBITDA (x)	10.24	9.51	9.41
EV/Subscriber (x)	12326	4745	5567

(Valuation Ratios calculated using the trailing last four quarter figures)

The stability in tariffs witnessed over the past few months has put a stop to the further deterioration of the performances of the incumbents. However, the huge debt which the various players have raised to pay for the 3G spectrum is putting pressure on bottom-line. We believe that it will take at least 2-3 years for the companies to reap the return on heavy investments incurred for 3G spectrums. However, Bharti Airtel will be able to offset the margin pressures in wireless services by the lucrative enterprise services. Bharti Airtel's entry into African continent gives it an opportunity to establish itself on the global front. By leveraging on its low cost service delivery model, Bharti Airtel should be able to improve the efficiency of its African operations.

Ashish Khetan
Tel.: 022 3027 8201
Email: ashish.khetan@nirmalbang.com

Niraj Garhyan
Tel.: 022 3027 8215
Email: niraj.garhyan@nirmalbang.com