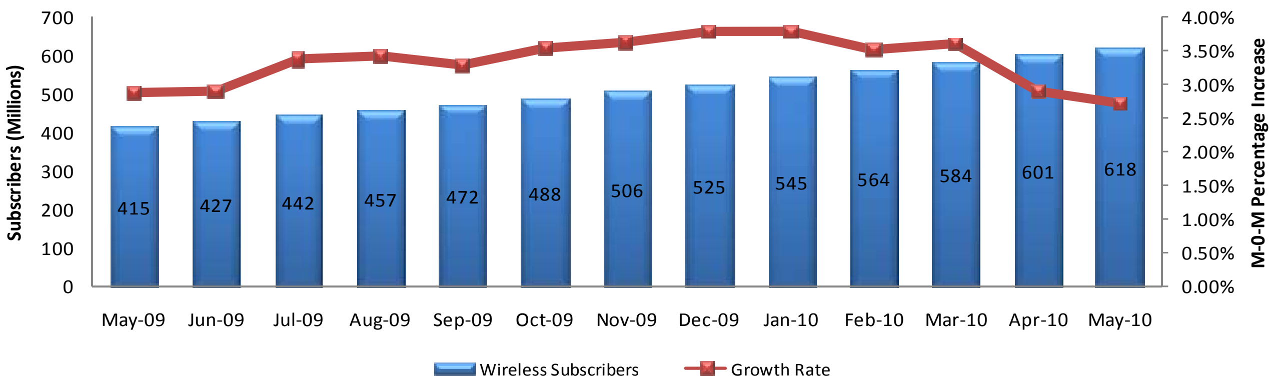
Telecommunications Monthly Update – May 2010

After witnessing an increasing subscriber addition over the last one year, Indian Telecommunication industry had a subdued subscriber addition for the second month in a row. This can be attributed to a relatively stable tariff environment in comparison to the cut throat price competition witnessed earlier which was causing subscribers to switch from one operator to another or hold multiple sim cards in order to benefit from attractive competitive tariffs.

	May 2010	April 2010
Wireless Subscriber Base (mn)	617.53	601.22
Wireline Subscriber Base (mn)	36.39	36.83
Total Subscriber Base (mn)	**653.92**	**638.05**

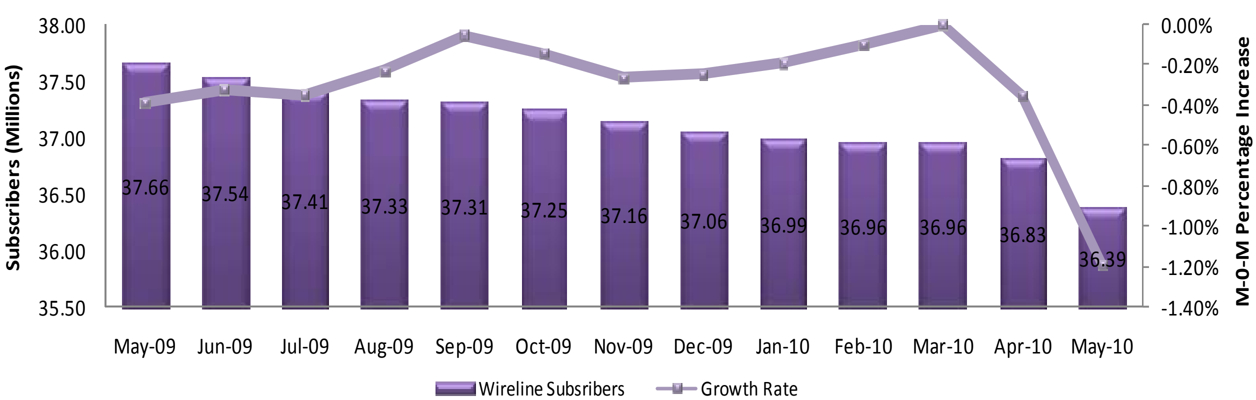
- The number of telecom subscribers in India increased to 653.92 mn at the end of May -2010 from 638.05 mn in April-2010.
- The overall Tele-density of India increased from 54.10% to 55.38% over last one month.

All India Wireless Subscriber Base



- Wireless subscribers which crossed 600 mn mark in April-2010, added another 16.3 mn subscribers during the month, taking the total wireless subscriber base to 617.53 mn
- Wireless Tele-density now stands at 52.30%.

All India Wireline Subscriber Base



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- Wireline segment saw an increased reduction in its subscriber base. There was a reduction of 0.44 mn subscribers during May-2010 reducing the overall wireline subscriber base to 36.39 mn
- The wireline tele-density reduced to 3.08% in May-2010 from 3.12% in April-2010

All India Subscriber Base (Includes Wireless and Wireline)

Market Players	May 2010 Subscribers (000's)	Net Additions (000's)	M-o-M Growth	Y-o-Y Growth	Market Share	Share of net addition
Bharti Airtel	136,738	3,026	2.3%	33.6%	20.9%	19.1%
Reliance Communications	109,158	2,821	2.7%	3.6%	16.7%	17.8%
Vodafone Essar	106,347	2,591	2.5%	3.5%	16.3%	16.3%
BSNL	98,885	577	0.6%	19.8%	15.1%	3.6%
Tata Teleservices	71,396	2,339	3.4%	6.3%	10.9%	14.7%
Idea Cellular	66,727	1,439	2.2%	3.2%	10.2%	9.1%
Aircel	40,080	1,610	4.2%	7.8%	6.1%	10.1%
MTNL	8,651	36	0.4%	0.4%	1.3%	0.2%
Uninor	5,013	-9	-0.2%	-	0.8%	-0.1%
Sistema Shyam Teleservices	4,673	421	9.9%	40.0%	0.7%	2.7%
Loop Telecom	2,912	17	0.6%	0.8%	0.4%	0.1%
Videocon	1,395	705	102.4%	-	0.21%	4.45%
Stel	1,233	121	10.86%	-	0.2%	0.76%
HFCL Infotel	697	164	30.9%	30.2%	0.11%	1.04%
Etisalat	10	5.13	102.8%	-	0.0%	0.03%
All India Subscribers	653,915	15,865	2.5%	44.4%	100.0%	100.0%

- Bharti Airtel maintains its market leadership position with 136.74 mn subscribers and it has an increased share in subscriber additions at 3.03 mn during May-2010
- Reliance Communications strengthened its position by the addition of 2.82 mn subscriber during the month while Vodafone Essar had 106.35 mn subscribers at the end of May-10, a m-o-m increase of 2.5%.
- Tata Teleservices added 2.34 mn subscribers during May-2010 while Idea Cellular had a 2.2% m-o-m growth
- Aircel had 40.08 million subscribers in May-2010 achieving a growth rate of 4.2% m-o-m
- Videocon Telecommunications launched its operations in the circle of Kerala during May-2010 while Sistema Shyam Teleservices further increased its presence in Andhra Pradesh circle during the month
- Category A and B circles continue to dominate subscriber additions, adding 11.67 mn subscribers (over 71% of industry net additions) while Category C circle had the highest growth rate in subscriber additions

Operator wise Wireless Subscriber Base (millions)

	May-10	Apr-10	Mar-10	Feb-10	Jan-10	Dec-09	Nov-09	Oct-09	Sep-09	Aug-09	Jul-09	Jun-09	May-09
Bharti Airtel	133.6	130.6	127.6	124.6	121.7	118.9	116.0	113.2	110.5	108.0	105.2	102.4	99.5
Reliance Communications	108.0	105.2	102.4	99.4	96.6	93.8	91.0	88.2	86.1	84.1	82.0	79.6	77.2
Vodafone Essar	106.3	103.8	100.9	97.2	94.1	91.4	88.6	85.8	82.8	80.9	78.7	76.4	74.1
BSNL	71.7	70.6	69.5	66.8	65.1	62.9	60.8	59.4	58.8	57.3	56.0	54.4	53.6
Idea Cellular	66.7	65.3	63.8	62.1	59.9	57.6	55.9	53.4	51.5	50.1	48.5	47.1	45.5
Tata Teleservices	70.2	67.9	65.9	63.2	60.3	57.3	54.0	50.7	46.8	42.8	39.4	37.1	36.5
Aircel	40.1	38.5	36.9	34.9	33.0	31.0	29.4	27.7	25.7	24.4	23.1	21.8	20.7
Others	20.9	19.4	17.3	15.8	14.2	12.3	10.4	9.9	9.5	9.2	8.8	8.5	8.1
Total	617.5	601.2	584.3	564.0	545.0	525.1	506.0	488.4	471.7	456.7	441.7	427.3	415.2

- Market Leader Bharti Airtel clocked a growth rate of over 34.2% y-o-y while Reliance Communication had a y-o-y growth rate of 39.82%
- Incumbent operators had a marginal decline in their market share on a m-o-m basis

Operator Wise Wireless Net Additions (millions)

	May-10	Apr-10	Mar-10	Feb-10	Jan-10	Dec-09	Nov-09	Oct-09	Sep-09	Aug-09	Jul-09	Jun-09	May-09
Bharti Airtel	3.0	3.0	3.0	2.9	2.9	2.9	2.8	2.7	2.5	2.8	2.8	2.8	2.8
Reliance Communications	2.8	2.7	3.0	2.8	2.8	2.8	2.8	2.1	2.0	2.1	2.4	2.4	2.4
Vodafone Essar	2.6	2.9	3.6	3.1	2.7	2.8	2.8	3.0	2.0	2.2	2.2	2.4	2.5
BSNL	1.1	1.2	2.7	1.6	2.2	2.1	1.3	0.7	1.5	1.3	1.6	0.8	0.4
Idea Cellular	1.4	1.5	1.7	2.3	2.3	1.7	2.6	1.9	1.4	1.5	1.4	1.6	1.3
Tata Teleservices	2.3	1.9	2.8	2.8	3.0	3.3	3.3	3.9	4.0	3.4	2.3	0.6	0.8
Aircel	1.6	1.6	2.0	1.8	2.0	1.7	1.6	2.0	1.3	1.3	1.3	1.1	1.1
Others	1.5	2.1	1.5	1.7	1.9	1.9	0.5	0.4	0.3	0.3	0.4	0.3	0.3
Total	16.3	16.9	20.3	19.0	19.8	19.1	17.6	16.7	15.0	15.1	14.4	12.0	11.6

- Bharti Airtel added the highest number of subscribers at 3 mn while Reliance Communication came in second with 2.8 mn subscriber additions.
- Vodafone Essar had a reduced share in subscriber addition at 2.6 mn during the month
- Tata Teleservices increased its share in subscriber additions during the month. It added 2.3 mn subscribers

Reliance Communication – GTL Infrastructure Deal:

Reliance Communications agreed to merge its telecoms communication towers business with that of GTL Infrastructure Ltd to create what would be the world's largest telecoms infrastructure firm not controlled by an operator. The combined operations would have an enterprise value of over $11 billion and would own more than 80,000 towers, with more than 125,000 tenancies from over 10 operators, such as Reliance Communications, Aircel, Etisalat DB Telecom, MTS, Uninor Telecom, Videocon Mobile, Tata Teleservices, Vodafone, S Tel.

The deal would result in a debt reduction of 180 billion rupees ($3.9 billion) for Reliance Comm. Its debt before the deal stood at about 330 billion rupees, including the cost to finance its recent third-generation spectrum licenses. Based on the developments in the Indian telecom sector, and the likely future demand for telecom infrastructure across the country, the merged entity is expected to derive substantially higher tenancy ratios, apart from scale benefits and operational synergies.

Valuation Ratios

Parameters	Bharti Airtel	Idea Cellular	Reliance Comm.
Earnings per Share(TTM)	24.13	3.03	22.55
Price (CMP)	271.15	59.20	182.25
Price/Earnings (x)	11.24	19.57	8.08
Price/Book value (x)	2.49	1.71	0.97
Enterprise Value (EV) (Cr.)	101690	24661	57506
EV/Sales (x)	2.43	1.98	2.68
EV/EBITDA (x)	6.14	7.24	8.0
EV/Subscriber (x)	7437	3696	5268

(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 will cause pressures on the profitability in the near term. It will be at least 3-4 quarters before the operators can start up their 3G services. 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 and Reliance Comm. will be able to offset the margin pressures in wireless services by the lucrative enterprise services. Also the reduced debt of Reliance Comm because of its deal with GTL Infra should improve the margins going forward.

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