KSL - Sector Update

KHANDWALA SECURITIES LIMITED

Telecom

March 03, 2010

Current Scenario:

- ✓ Wireless segment added net 19.9 mn subscribers in Jan '10, highest ever addition in a month
- × Wireline segment declining trend continues, lost 0.3 mn subscribers
- ✓ Telephone subscriber base reaches 581.81 mn, 3.5% MoM growth and 45.4% YoY growth
  - Wireless subscription reaches 545.05 mn
  - Wireline subscription declines to 36.76 mn
- ✓ Overall Tele-density reaches 49.5
  - Wireless tele-density stands at 46.37
  - Wireline tele-density stands at 3.13
- ⇔ Incumbent pan-Indian players losing market share to new players and players widening their reach into new circles
- ⇔ 3G auction revised schedule gives clarity and open up new growth opportunities, however it could stress balance-sheet further
- × Wireless GSM and CDMA ARPU on declining trend – GSM and CDMA ARPU declined by 25.9% and 27.7% in 12 months ended Sept-09.
  - GSM ARPU - Rs 164 in qtr ended Sept-09
  - CDMA ARPU - Rs 89 in qtr ended Sept-09
- × Wireless MoU also on declining trend – GSM and CDMA MoU declined by 15.1% and 7.1% respectively over September 2008.
  - GSM MoU - 423 for qtr ended Sept-09
  - CDMA MoU - 308 for qtr ended Sept-09

Outlook:

- × Revenue growth lags behind subscriber addition due to significant price decline as tariff war intensifies and multi-SIM card usage increases.
- × Revenue growth likely to be ~10% in FY10 as compared to subscribers growth of ~50%
- ⇔ New players and GSM roll out of dual technology service providers to gain market share as they widen their reach
- ⇔ MNP introduction likely to result into lower propensity to keep multi SIM cards to ride scheme benefits
- × Category B and C circles driving growth where ARPU remains lower usually
- × Cut throat competition, rising network operating costs and subscriber acquisition costs would exert pressure on margins
- × Competition might led to aggressive bidding in 3G auctions
- × Valuation appears reasonable, however intense competition and no visible near term positives would continue to limit stocks' performance

Service provider-wise Wireless Subscribers

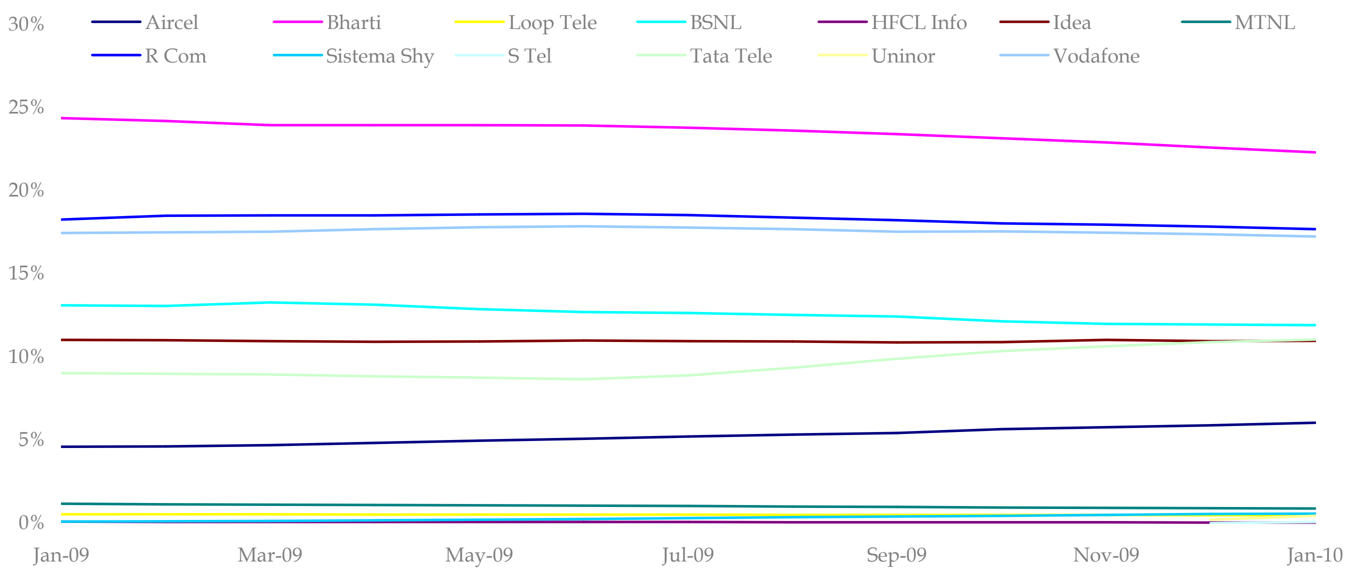
Service Providers (in mn)	End Jan-10 Sub-Scribers	Market Share (%)	M-o-M Net Addition	Incr. Mkt Share (%)	M-o-M Gwth (%)	Y-o-Y Net Addition	Incr. Mkt Share (%)	Y-o-Y Gwth (%)
Aircel	33.0	*6.1*	2.0	*10.1*	*6.5*	16.3	*8.9*	*97.1*
Bharti	121.7	*22.3*	2.9	*14.3*	*2.4*	33.3	*18.2*	*37.7*
Loop Telecom	2.7	*0.5*	0.1	*0.3*	*2.0*	0.7	*0.4*	*34.6*
BSNL	65.1	*11.9*	2.2	*11.3*	*3.6*	17.5	*9.6*	*36.8*
HFCL Infotel	0.3	*0.1*	0.0	*-0.1*	*-5.2*	-0.1	*0.0*	*-15.9*
Idea	59.9	*11.0*	2.3	*11.4*	*3.9*	19.9	*10.9*	*49.7*
MTNL	4.9	*0.9*	0.0	*0.2*	*0.9*	0.6	*0.3*	*14.5*
R Com	96.6	*17.7*	2.8	*14.1*	*3.0*	30.3	*16.6*	*45.7*
Sistema Shyam Tele	3.3	*0.6*	0.2	*1.1*	*7.0*	2.8	*1.5*	*649.1*
S Tel	0.5	*0.1*	0.4	*1.8*	*257.9*	0.5	*0.3*	-
Tata Teleservices	60.3	*11.1*	3.0	*15.0*	*5.2*	27.5	*15.1*	*83.9*
Uninor	2.5	*0.5*	1.3	*6.7*	*110.1*	2.5	*1.4*	-
Vodafone Essar	94.1	*17.3*	2.7	*13.8*	*3.0*	30.8	*16.9*	*48.6*
Total	**545.0**	***100.0***	**19.9**	***100.0***	***3.8***	**182.8**	***100.0***	***50.4***

Circle-wise Wireless Subscribers

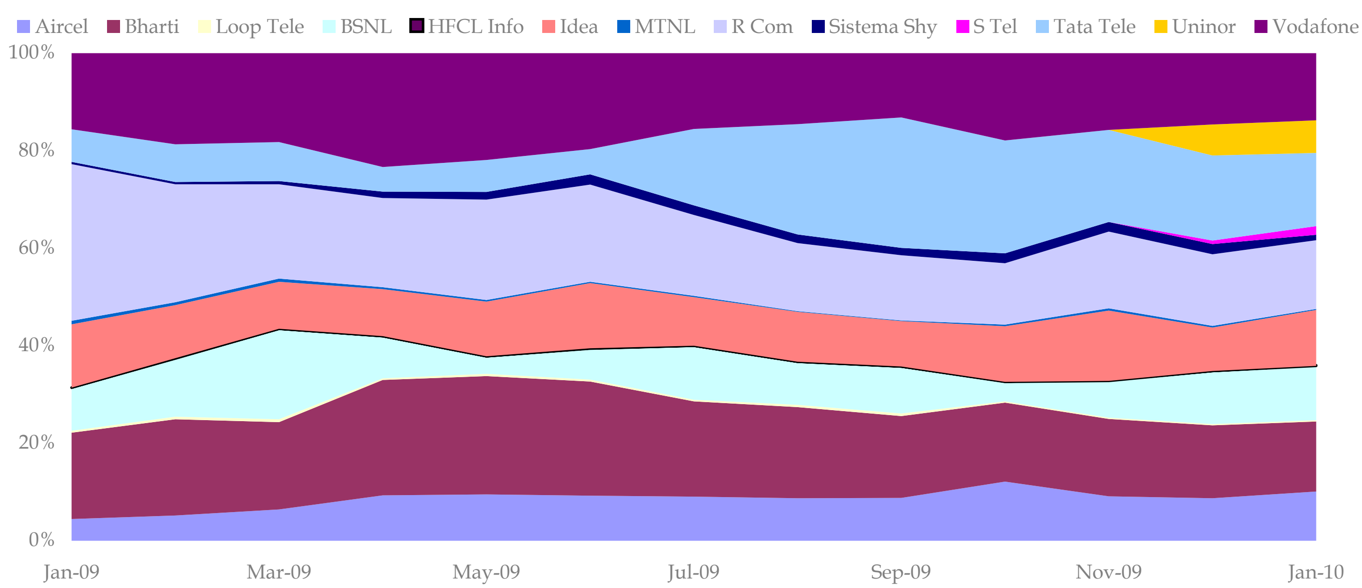
Circle (in mn)	End Jan-10 Sub-Scribers	Market Share (%)	M-o-M Net Addition	Incr. Mkt Share (%)	M-o-M Gwth (%)	Y-o-Y Net Addition	Incr. Mkt Share (%)	Y-o-Y Gwth (%)
A.P.	42.9	*7.9*	1.5	*7.4*	*3.5*	14.6	*8.0*	*51.5*
Assam	8.1	*1.5*	0.3	*1.7*	*4.3*	2.7	*1.5*	*50.9*
Bihar	34.0	*6.2*	2.2	*11.2*	*7.0*	15.4	*8.4*	*82.9*
Chennai	11.4	*2.1*	0.1	*0.7*	*1.2*	2.5	*1.4*	*28.5*
Delhi	27.3	*5.0*	0.6	*3.0*	*2.3*	6.9	*3.8*	*33.6*
Gujarat	30.1	*5.5*	0.8	*4.3*	*2.9*	7.2	*3.9*	*31.2*
H.P.	4.7	*0.9*	0.2	*0.9*	*4.2*	1.5	*0.8*	*49.3*
Haryana	13.2	*2.4*	0.4	*2.1*	*3.3*	4.4	*2.4*	*49.4*
J & K	5.1	*0.9*	0.2	*0.8*	*3.1*	2.0	*1.1*	*63.8*
Karnataka	34.4	*6.3*	1.7	*8.5*	*5.2*	12.0	*6.6*	*53.4*
Kerala	22.8	*4.2*	0.6	*3.0*	*2.6*	7.4	*4.0*	*47.7*
Kolkata	15.4	*2.8*	0.4	*1.9*	*2.5*	4.7	*2.6*	*43.9*
M.P.	29.6	*5.4*	1.3	*6.5*	*4.6*	10.5	*5.8*	*55.3*
Maharashtra	41.2	*7.6*	1.2	*6.0*	*3.0*	12.6	*6.9*	*44.3*
Mumbai	25.1	*4.6*	0.8	*4.0*	*3.2*	6.7	*3.7*	*36.8*
North East	4.9	*0.9*	0.3	*1.4*	*6.2*	1.9	*1.0*	*63.1*
Orissa	13.6	*2.5*	0.7	*3.4*	*5.1*	5.8	*3.2*	*75.0*
Punjab	18.9	*3.5*	0.5	*2.4*	*2.5*	5.1	*2.8*	*36.5*
Rajasthan	31.5	*5.8*	0.8	*4.3*	*2.8*	10.3	*5.7*	*48.8*
T.N.	39.9	*7.3*	1.5	*7.6*	*3.9*	14.5	*8.0*	*57.4*
U.P.(E)	40.1	*7.4*	1.9	*9.4*	*4.9*	14.9	*8.1*	*59.1*
U.P.(W)	28.2	*5.2*	1.0	*5.1*	*3.8*	10.6	*5.8*	*60.0*
W.B.	22.7	*4.2*	0.9	*4.6*	*4.2*	8.5	*4.6*	*59.6*
Total	**545.0**	***100.0***	**19.9**	***100.0***	***3.8***	**182.8**	***100.0***	***50.4***

Wireless Market Share

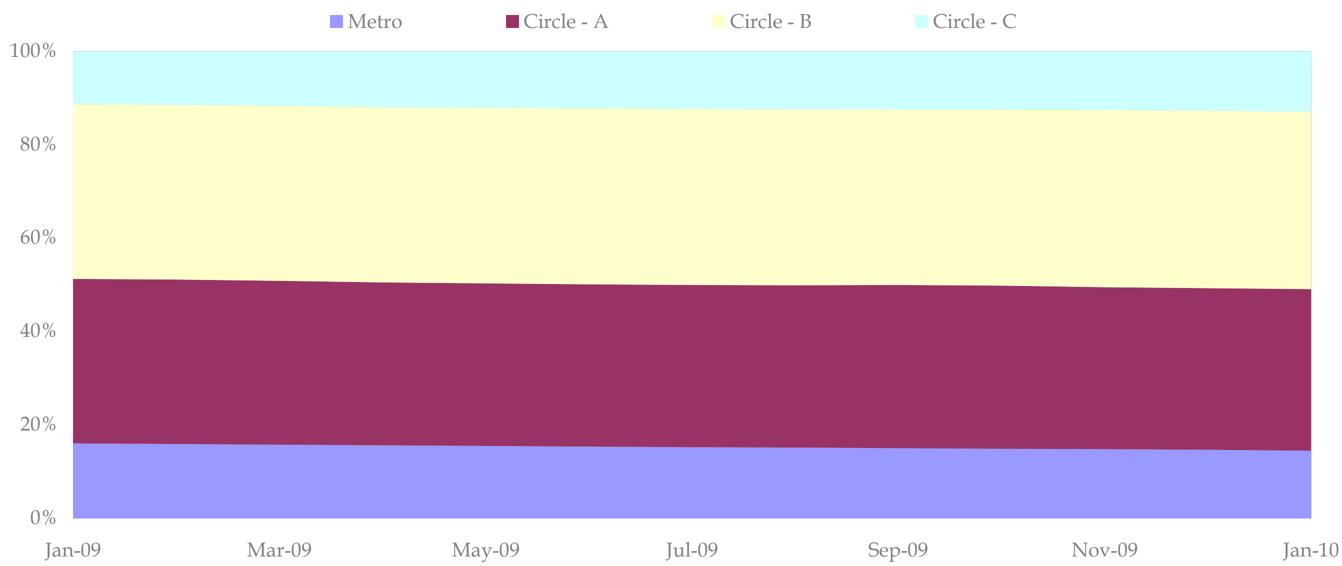
Bharti, BSNL, R Com, MTNL and Vodafone lost 2.1%, 1.2%, 0.6%, 0.3% and 0.2% market share in last 12 months. Only Tata Tele managed to increase their share due to GSM roll out. R Com market share come back to pre-GSM pan-India rollout of 17.7% after reaching a high of 18.6%. Uninor, new entrant, added impressive 1.3 mn subscribers in January after 1.2 mn in December.



Wireless Incremental Market Share (M-o-M)



Wireless Subscribers Category-wise Market Share



Wireline Subscriber

(In Mn)	End Jan-10		*M-o-M*	*Y-o-Y*
Service Providers	**Subscribers**	***Mkt Share (%)***	***Addition***	***Addition***
Bharti	3.0	*8.2*	*0.0*	*0.4*
BSNL	28.0	*76.1*	*-0.1*	*-1.3*
HFCL Infotel	0.2	*0.5*	*0.0*	*0.0*
MTNL	3.3	*8.8*	*-0.2*	*-0.3*
R Com	1.2	*3.2*	*0.0*	*0.1*
Sistema Shyam	0.1	*0.1*	*0.0*	*-0.1*
Tata Teleservices	1.1	*3.0*	*0.0*	*0.2*
Total	**36.8**	***100.0***	***-0.3***	***-1.0***

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