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## Telecom Update

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**Government to benefit hugely from the auction of vacated 2G spectrum; industry to witness some consolidation; pricing power to be back but the gain from subscriber addition would be limited for the incumbents.**

- In a major setback to the mobile operators who were issued licenses in 2008, the Supreme Court cancelled 122-2G licenses granted during the period by the former telecom minister A Raja...
- The companies who have been impacted by the license cancellation include Uninor (joint venture between Unitech and Telenor of Norway), Sistema-Shyam (joint venture between Shyam Telecom and Sistema of Russia), Videocon, Loop Telecom, Idea Cellular, Etisalat DB (joint venture between DB Realty and Etisalat of UAE) among others...
- Uninor and Sistema-Shyam have invested huge amount, running into billions of rupees, during the past few months through debt and equity and thus would be the major losers...
- Contrary to the popular belief, we do not believe that the Supreme Court move will benefit the incumbents in any way other than regaining some pricing power due to lower competition per circle...
- Only around 7.4% of the total subscriber base would be impacted; in terms of revenue, these constitute 4% of the industry revenue...
- The entire exercise would reduce the competitive intensity in the industry and improve the pricing power for the incumbents, while on the other hand the investment in the industry will suffer especially from the foreign investors...
- Affected operators are allowed to continue operation for the next 4 months, while the TRAI frames new policy for spectrum reallocation and auction within a month ...
- On the other hand the government of India will benefit immensely from the move as it seeks to auction the vacated spectrum at higher prices than the prices of 2008...
- Overall about 300-400 MHz of total spectrum is expected to be freed...
- Auction may increase the price of the airwave manifold and incumbents like Bharti Airtel, Idea Cellular and Rcom may bid aggressively...

Contrary to the popular belief, we do not expect any material benefit for the incumbent operators in the industry from the Supreme Court verdict since only a small portion of the subscribers would be impacted from the license cancellation.

In our view, the move by the Supreme Court is expected to benefit the government, if it opts for an auction to re-allocate the licenses that were cancelled. The auction may fetch huge amount of money which could reduce the government's fiscal deficit.

We do not believe that the cancellation will benefit the incumbents in any ways as only 7% of the total mobile subscriber base in India would be impacted and only these 7% users may port to incumbent networks. Note that these 7% subscribers are low usage customers, hence unlikely to be revenue accretive. Based on the revenue of the industry for the quarter ended September 2011, these 7% subscribers contribute 4% to the total revenue of the industry. (See Table 1 and Table 2)

Smaller operators may find it difficult to continue operators and may be forced to exit thus lowering the number of operators per circle. This bodes well for the industry as the competitive intensity would be reduced marginally and the incumbents will regain pricing power.

Overall we do not expect the development to be a game changer for the industry and would wait for much important verdicts to come on the 3G roaming agreement and one time excess spectrum charges that the incumbents have to pay.

We continue to remain positive on Bharti Airtel and Idea Cellular while maintain our 'Buy' rating on the stock with price target of Rs 480 and Rs 133 respectively.

**Table 1 - Calculation of mobile subscribers impacted by the move**

Operator	Total Subscribers (mn)	Impacted Subscribers (mn)	Impacted Subscribers (%)
Bharti	175.65	0.00	0.0%
Vodafone	147.75	0.00	0.0%
Rcom	150.08	0.00	0.0%
Idea	106.38	6.70	6.3%
Tata	83.49	0.32	0.4%
BSNL	96.76	0.00	0.0%
Aircel	61.64	0.00	0.0%
Loop	3.24	0.01	0.2%
Etisalat	1.67	1.56	93.2%
HFCL	1.19	0.00	0.0%
MTNL	5.68	0.00	0.0%
Sistema	15.01	12.66	84.3%
Stel	3.55	3.55	100.0%
Unitech	36.31	36.31	100.0%
Videocon	5.44	5.44	100.0%
<b>Total</b>	<b>893.84</b>	<b>66.53</b>	<b>7.4%</b>

Source: TRAI, FQ Research

**Table 2 - Revenue share of the impacted subscribers**

Operator	Total Revenue (mn)	Impacted Revenue (mn)	Impacted Revenue (%)
Bharti	100777.90	0.00	0.0%
Vodafone	73762.20	0.00	0.0%
Rcom	27137.50	0.00	0.0%
Idea	46897.30	1803.70	3.8%
Tata	27357.40	368.20	1.3%
BSNL	23892.80	0.00	0.0%
Aircel	15895.20	0.00	0.0%
Loop	1773.30	12.50	0.7%
Etisalat	202.70	199.70	98.5%
HFCL	460.30	0.00	0.0%
MTNL	2061.30	0.00	0.0%
Sistema	3282.10	2762.00	84.2%
Stel	385.60	385.60	100.0%
Unitech	6514.80	6514.80	100.0%
Videocon	1281.40	1281.40	100.0%
<b>Total</b>	<b>331681.80</b>	<b>13327.90</b>	<b>4.0%</b>

Source: TRAI, FQ Research

Table 3 - Circle-wise subscriber market share of mobile operators at the end of December 2011

Circle	Bharti	Vodafone	Rcom	Idea	Tata	BSNL	Aircel	Loop	Etisalat	HFCL	MTNL	Sistema	Stel	Unitech	Videocon
<b>Metro &amp; 'A' Circle</b>															
Delhi	20.49	19.87	20.62	10.46	11.85	-	5.59	-	1.83	-	6.69	2.60	-	-	-
Mumbai	9.96	16.39	23.19	7.32	14.34	-	3.13	8.68	1.25	-	7.78	1.97	-	3.56	2.43
Kolkatta	15.57	18.36	21.83	4.86	12.76	9.81	7.14	0.01	-	-	-	3.29	-	6.37	0.01
Tamil Nadu	17.48	16.03	11.50	2.69	5.63	12.53	28.52	-	0.04	-	-	2.24	-	1.88	1.45
Andhra Pradesh	27.11	10.75	14.18	14.47	11.82	13.46	2.90	-	0.05	-	-	0.93	-	4.30	0.02
Karnataka	28.34	12.25	14.65	9.95	12.63	12.19	3.18	-	0.05	-	-	3.80	-	2.92	0.02
Maharashtra	13.58	18.32	15.66	21.64	13.76	8.61	1.74	-	0.05	-	-	0.99	-	5.63	0.02
Gujarat	13.34	30.59	15.85	15.00	7.52	8.01	1.15	-	0.06	-	-	0.23	-	5.99	2.25
<b>B' Circle</b>															
Punjab	21.85	13.95	15.44	16.11	11.20	14.94	2.69	-	0.06	3.76	-	-	-	-	-
Uttar Pradesh (East)	19.20	20.12	17.36	9.71	6.32	14.27	3.24	-	0.07	-	-	0.58	-	9.11	0.02
Uttar Pradesh (West)	12.71	18.08	18.68	18.87	9.56	8.97	3.80	-	0.09	-	-	0.80	-	8.42	0.02
Haryana	10.56	20.06	19.75	15.82	12.92	13.61	2.59	-	0.07	-	-	1.03	-	-	3.59
Madhya Pradesh	19.13	7.36	24.42	26.22	9.48	9.53	1.60	-	0.15	-	-	-	-	-	2.12
Kerala	10.25	17.01	12.40	21.74	6.83	19.93	7.18	-	0.04	-	-	1.80	-	2.11	0.72
Himachal Pradesh	22.73	5.37	23.66	5.49	5.10	22.03	8.74	-	-	-	-	-	5.87	-	1.01
Rajasthan	28.51	19.39	16.19	7.67	8.32	12.05	2.80	-	0.07	-	-	4.97	-	-	0.02
West Bengal	20.12	25.86	16.27	4.25	7.00	7.89	6.88	-	-	-	-	3.75	-	7.93	0.04
<b>C' Circle</b>															
Assam	25.38	13.81	18.97	2.19	0.91	11.48	26.60	-	-	-	-	0.01	0.64	-	-
Bihar	27.40	9.36	15.50	8.71	8.05	9.87	8.22	-	0.07	-	-	2.52	3.38	6.89	0.03
Jammu & Kashmir	33.49	11.18	8.67	2.62	1.93	16.49	25.63	-	-	-	-	-	-	-	-
North East	26.41	11.33	10.58	2.47	0.92	18.79	29.09	-	-	-	-	-	0.42	-	-
Orissa	22.92	9.69	18.56	3.55	9.39	16.61	10.59	-	-	-	-	-	3.56	5.09	0.04
<b>Total</b>	<b>19.65</b>	<b>16.53</b>	<b>16.79</b>	<b>11.90</b>	<b>9.34</b>	<b>10.83</b>	<b>6.90</b>	<b>0.36</b>	<b>0.19</b>	<b>0.13</b>	<b>0.64</b>	<b>1.68</b>	<b>0.40</b>	<b>4.06</b>	<b>0.61</b>

Source: TRAI, FQ Research

# Cells shaded in grey are the license cancelled of the respective operators

Uninor has subscriber market share of 6.37%, 5.63% and 5.99% in the Kolkatta, Maharashtra and Gujarat circles while Uninor has market share of 5-10% in Gujarat, UP (West), West Bengal, Bihar and Orissa circle. Hence license cancellation of these operators in these circles will mean lower competition for the incumbents here, while the affected subscribers is expected to port to the incumbent's network. Idea Cellular too has high market share in some of the circles where its license got cancelled. But we believe that the impacted companies will bid for the license and spectrum again in these circles, while we believe some of the smaller operators will witness imminent exit. (See table 3 for circle-wise market share of each operators)

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