

## Telecom sector

### Net subscriber addition down again

Cellular Operators Association of India (COAI) reported GSM subscriber data for June 2011, which continued its declining trend in this month as well. GSM subscriber net addition data was reported to be weak on mom basis across all the telecom operators (except BSNL). The net subscriber addition number stood at 9.6mn, down 10% mom, taking the total GSM subscriber base to 598.8mn in June 2011.

#### Weakness across the board

Net addition run rate on mom basis for all operators (except BSNL) dropped steeply (Refer Exhibit: 5 and 6) in June 2011. Among the incumbents, Idea, after adding 2.5mn plus net subscribers every month from November 2010–April 2011, reported a drop in net subscriber additions to merely 1.4mn, down 24.8% mom. Net subscriber addition numbers of Bharti, Vodafone and Aircel also fell by 13.5%, 14.5% and 17.3% mom to 2.1mn, 2.1mn and 0.9mn, respectively. However, BSNL, which was reporting mom decline in its subscriber additions since the last five months, again registered a 78.8% mom jump in June 2011, with net subscriber addition of 0.8mn. Subscriber market share of all the incumbents remained almost flat mom – Bharti at 28.3%, Vodafone at 23.6%, Idea at 15.9%, BSNL at 14.8% and Aircel at 9.7%.

All the new operators reported a sharp decline in subscriber net addition numbers for June 2011. Uninor, DB Etisalat and S Tel reported 17.4%, 37.1% and 7.8% mom decline in net subscriber additions, with addition numbers of 0.9mn, 0.1mn and 0.2mn, respectively. Loop Mobile emerged as the dark horse and reported a 30.8% mom increase in subscriber addition to 0.02mn. Subscriber market share of all the new players also remained almost stable on mom basis.

#### Circle-wise highlights

In June 2011, the net addition run rate of Metro circle declined to 0.7mn vs. 1.0mn in May 2011. In the Metro circle, in this month again Vodafone had the highest net additions at 0.21mn, followed by Bharti and Idea reporting 0.17mn net additions each. Subscriber addition run rate of A circle bounced back to 3.0mn from 2.4mn in May 2011. However, subscriber additions in B and C circles fell to 3.4mn and 1.5mn from 4.0mn and 2.1mn in May 2011, respectively. This led to a considerable decline in their net subscriber addition market share to 39.2% and 17.7% from 41.9% and 22.4% in May 2011, respectively.

#### Recommendation summary

Company	Reco.	CMP (₹)	Tgt. price (₹)	Upside (%)	FY2013E P/BV (x)	FY2013E P/E (x)	FY2011-13E EPS CAGR (%)	FY2013E RoCE (%)	FY2013E RoE (%)
Bharti Airtel	Neutral	393	-	-	2.3	15.0	28.2	12.3	16.3
Idea Cellular	Neutral	81	-	-	1.9	23.8	11.6	8.3	8.2
RCom	Neutral	95	-	-	0.5	13.5	4.5	3.1	3.5

Source: Company, Angel Research

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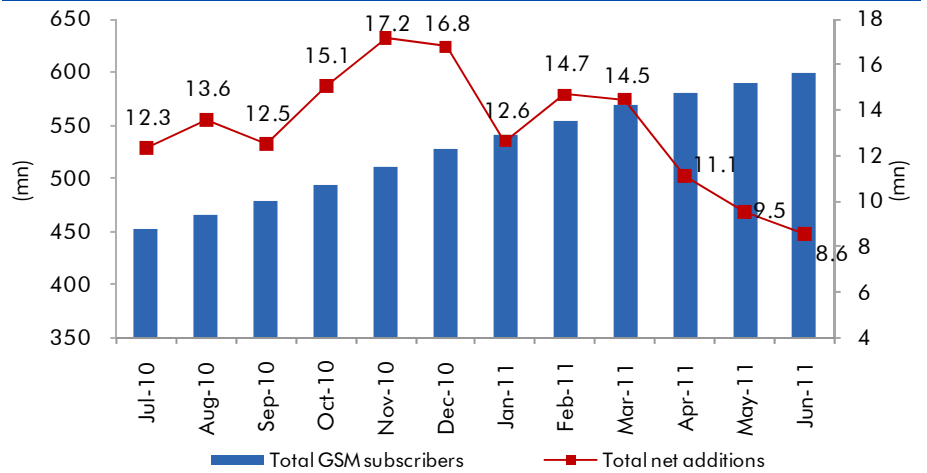
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### Incumbents uphold market share in subscriber addition

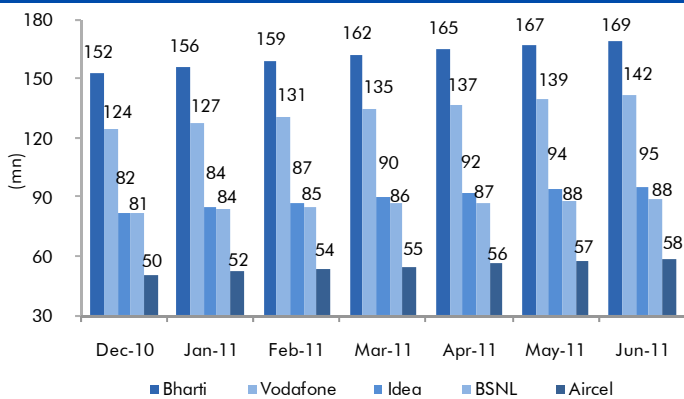
In June 2011, the total GSM subscriber base touched 598.8mn, up 1.5% mom, though net subscriber addition was very low at 8.6mn.

**Exhibit 1: GSM subscriber base and net additions – Pan India**



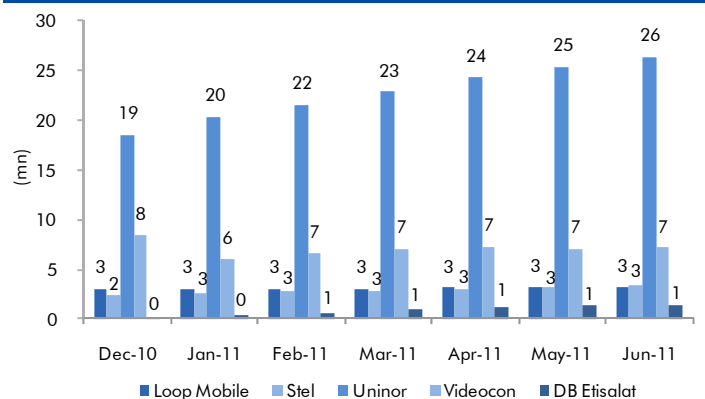
Source: Company, Angel Research

**Exhibit 2: Total GSM subscribers – Incumbents**



Source: Company, Angel Research

**Exhibit 3: Total GSM subscribers – New players**



Source: Company, Angel Research

**Exhibit 4: Total GSM subscribers**

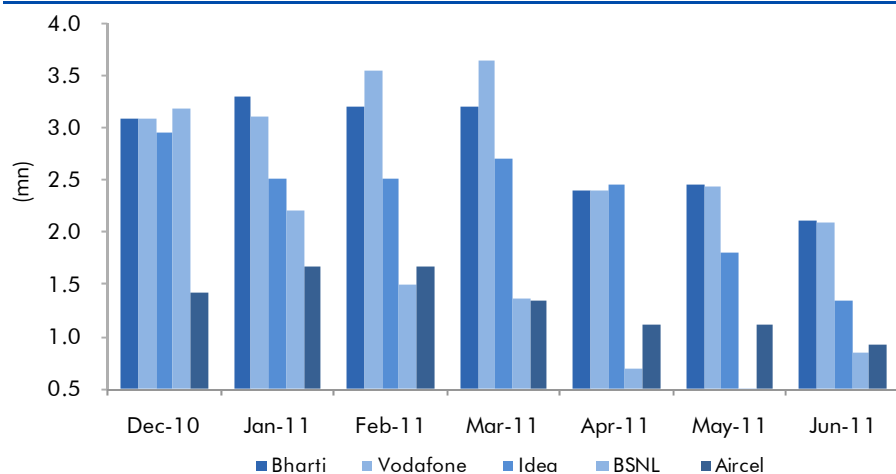
Company (mn)	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11	May -11	Jun-11
Bharti	152.5	155.8	159.0	162.2	164.6	167.1	169.2
Vodafone	124.3	127.4	130.9	134.6	137.0	139.4	141.5
BSNL	81.4	83.6	85.1	86.5	87.1	87.6	88.5
Idea	81.8	84.3	86.8	89.5	92.0	93.8	95.1
Aircel	50.2	51.8	53.5	54.8	56.0	57.1	58.0
MTNL	5.1	5.2	5.2	5.2	5.2	5.2	5.2
Loop Mobile	3.0	3.1	3.1	3.1	3.1	3.1	3.1
S Tel	2.3	2.5	2.7	2.8	3.0	3.2	3.3
Uninor	18.5	20.3	21.6	22.8	24.2	25.4	26.3
Videocon	8.4	6.0	6.6	7.1	7.2	7.1	7.1
DB Etisalat	0.3	0.5	0.7	1.0	1.2	1.3	1.4
<b>Total</b>	<b>527.7</b>	<b>540.4</b>	<b>555.1</b>	<b>569.6</b>	<b>580.7</b>	<b>590.2</b>	<b>598.8</b>

Source: Company, Angel Research

In June 2011, net subscriber addition stood highest for Bharti and Vodafone, each adding 2.1mn subscribers, taking their total subscriber base to 169.2mn and 141.5mn, respectively. This was followed by Idea, Aircel and BSNL, which added 1.4mn, 0.9mn and 0.8mn subscribers, taking their total subscriber base to 95.1mn, 58.0mn and 88.5mn, respectively.

Among the new players, Uninor added 0.9mn subscribers, leaving behind incumbents such as BSNL. Other players such as S Tel, Datacom and DB Etisalat added 0.2mn, 0.1mn and 0.1mn subscribers, respectively.

**Exhibit 5: GSM subscriber net addition – Incumbents**



Source: Company, Angel Research

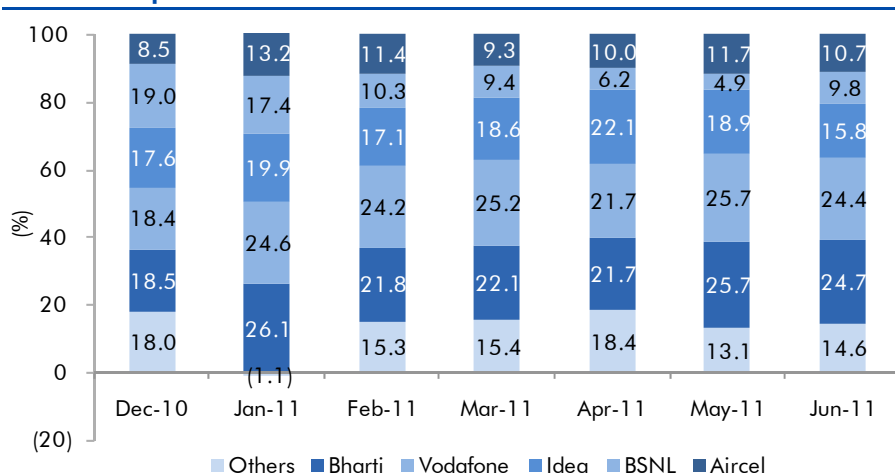
**Exhibit 6: Operator-wise net subscriber additions**

Company (mn)	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11	May -11	Jun-11
Bharti	3.1	3.3	3.2	3.2	2.4	2.5	2.1
Vodafone	3.1	3.1	3.6	3.6	2.4	2.4	2.1
BSNL	3.2	2.2	1.5	1.4	0.7	0.5	0.8
Idea	3.0	2.5	2.5	2.7	2.5	1.8	1.4
Aircel	1.4	1.7	1.7	1.3	1.1	1.1	0.9
MTNL	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loop Mobile	0.0	0.0	0.0	0.0	0.0	0.0	0.0
S Tel	0.2	0.2	0.2	0.1	0.2	0.2	0.2
Uninor	2.3	1.8	1.3	1.2	1.5	1.1	0.9
Videocon	0.3	(2.4)	0.6	0.5	0.1	(0.2)	0.1
DB Etisalat	0.1	0.2	0.2	0.3	0.2	0.1	0.1
<b>Total</b>	<b>16.8</b>	<b>12.6</b>	<b>14.7</b>	<b>14.5</b>	<b>11.1</b>	<b>9.5</b>	<b>8.6</b>

Source: Company, Angel Research

BSNL, which was reporting a declining trend in net subscriber additions since the last six months, reversed this trend in June 2011 by adding 0.8mn subscribers vs. 0.5mn in May 2011. This led to a jump in its net subscriber addition market share to 9.8% from 4.9% in May 2011.

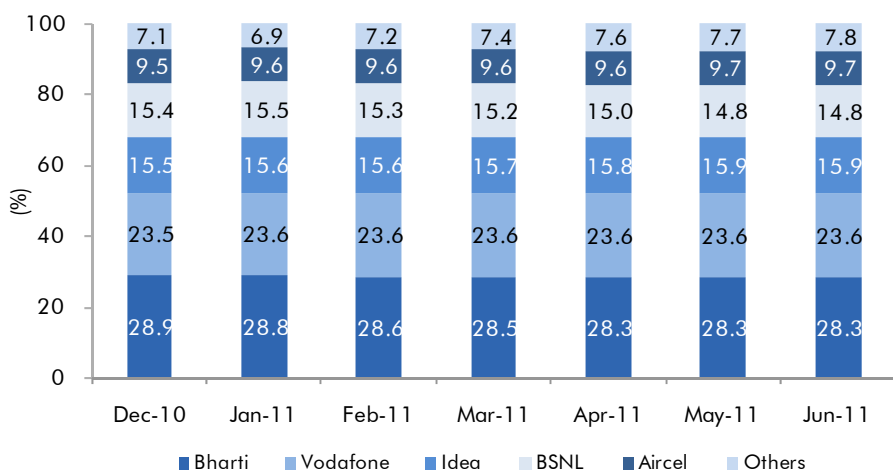
**Exhibit 7: Operator-wise market share in net additions**



Source: Company, Angel Research

In June 2011, all the incumbents, on mom basis, sustained their subscriber market share with Bharti at 28.3%, Vodafone at 23.6%, Idea at 15.9%, BSNL at 14.8% and Aircel at 9.7%.

**Exhibit 8: Operator-wise subscriber market share**



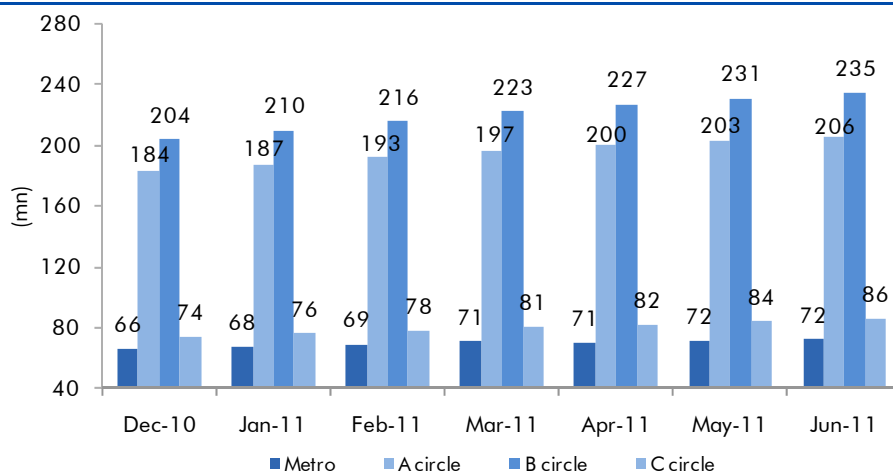
Source: Company, Angel Research

In June 2011, the net addition run rate of Metro circle declined to 0.7mn vs. 1.0mn in May 2011, taking its total subscriber base to 72.2mn. In the Metro circle, in this month again Vodafone had the highest net additions at 0.21mn, followed by Bharti and Idea, each adding 0.17mn subscribers. Aircel added 0.08mn subscribers in the Metro circle.

A circle witnessed 3.0mn subscriber additions in June 2011, taking its total subscriber base to 205.8mn. This was primarily led by Vodafone, which added 0.76mn subscribers in June 2011 in A circle, followed by Bharti, BSNL, Idea and Aircel, which added 0.57mn, 0.48mn, 0.32mn and 0.29mn subscribers, respectively.

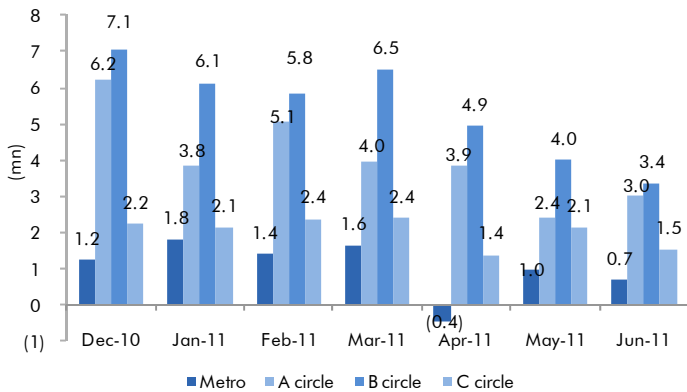
B and C circles witnessed addition of 3.4mn and 1.5mn subscribers, taking their total subscriber base to 234.8mn and 85.9mn, respectively.

**Exhibit 9: GSM subscriber base – Circle wise**



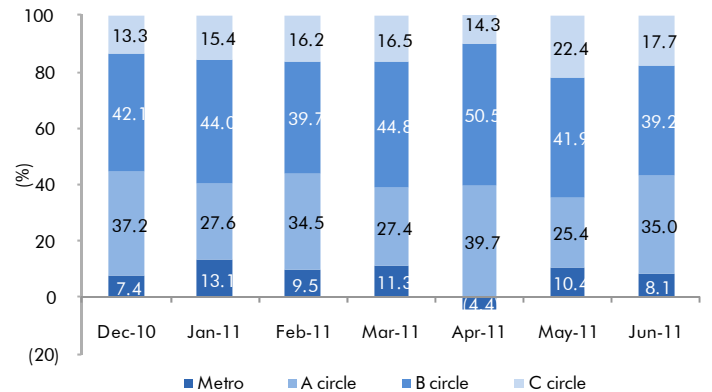
Source: Company, Angel Research

**Exhibit 10: Circle-wise subscriber net additions**



Source: Company, Angel Research

**Exhibit 11: Circle-wise share of net additions**



Source: Company, Angel Research

### Valuation

For Bharti and Idea, such a decline in net subscriber additions was along expected lines, thus our estimates remain unchanged. Bharti continues to be a better bet due to its low-cost integrated model (owned tower infrastructure), potential opportunity to scale up in Africa, established leadership in revenue and subscriber market share and relatively better KPIs. However, overall **we remain Neutral on the telecom sector.**

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Idea Cellular	No	No	No	No
RCom	No	No	No	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

### Ratings (Returns):

Buy (&gt; 15%)

Reduce (-5% to 15%)

Accumulate (5% to 15%)

Sell (&lt; -15%)

Neutral (-5 to 5%)

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