

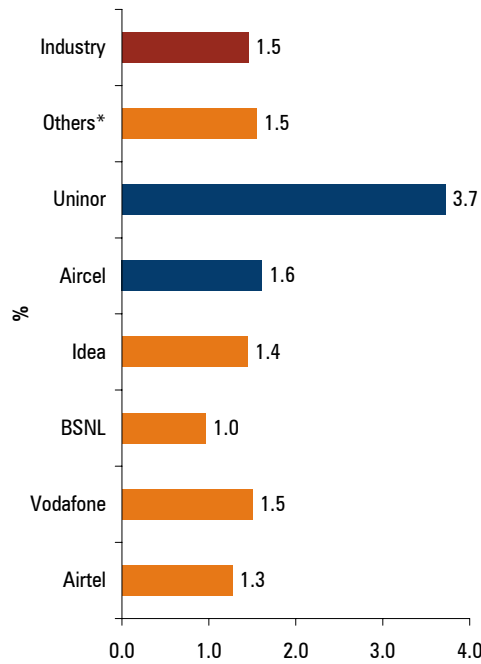
**Price performance...**

Equal weight

**Price performance...**

	1M	3M	6M	12M
Bharti Airtel	4.6	5.9	15.6	33.6
RCOM	0.1	-11.7	-27.3	-50.2
Idea	3.3	18.1	16.6	21.9
Tata Tele	29.6	22.1	16.1	-2.3

**Subscriber growth**

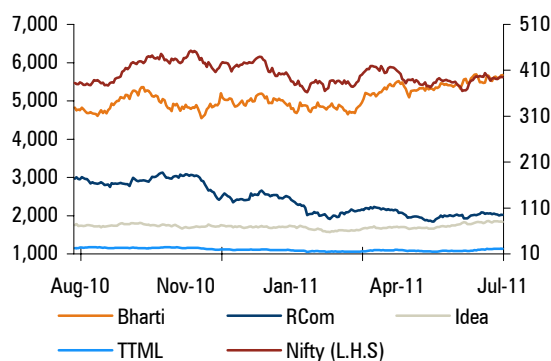


Source: COAI, ICICIdirect.com Research

\*Others include MTNL, BPL, STel, Uninor, Videocon, SWAN & Etisalat

\*Ex-Reliance Telecom and TTSL

**Price movement**



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**Subscriber addition continues to slide...**

**Subscriber addition falls again...**

Subscriber addition in the telecom industry fell for the fourth straight month to record a 19 month low in June 2011. Industry added 8.6 million GSM subscribers in June 2011 as against 9.5 million in May 2011. In Q1FY12, industry added 29.2 million subscribers, which is 13.7 million less than that of Q4FY11.

**Top 3 lead the slide**

The top 3 GSM operators saw a significant slide in subscriber addition in June 2011. Airtel and Vodafone added 2.1 million subscribers each as against 2.5 million and 2.4 million, respectively, in May 2011 while Idea added 1.4 million subscribers against 1.8 million in May 2011. The share in net adds also fell for the three to stand at 24.7%, 24.4% and 15.8% as against 25.7%, 25.7% and 18.9% in May 2011, respectively.

**BSNL – Better performer**

After facing a decline in net adds for five straight months, BSNL recovered to show an improvement in net adds in June 2011. BSNL added 0.8 million subscribers in June 2011 as against 0.5 million in May 2011. The share in net adds also increased significantly to 9.8% as compared to a mere 4.9% in May 2011.

**Others**

Aircel and Uninor added 0.9 million subscribers each in June 2011 as against 1.1 million in May 2011. The share in net adds also fell for both to 10.7% and 11% against 11.7% and 12.0%, respectively, in May 2011. Videocon improved from a subscriber reduction of 0.2 million in May 2011 to addition of 0.1 million subscribers in June 2011. Other companies added 0.2 million subscribers in June 2011 as against a 0.3 million in May 2011.

**Industry Outlook**

The declining net adds of new operators exhibits softening competitive intensity and drying up of the dual SIM phenomena. This would also curb MoU cannibalisation for incumbent players. Steady MoU, moderate rate of subscriber addition and a marginal fall in ARPM would lead revenue growth, going forward. The new telecom policy is expected to be a balanced one. This would help the incumbents in the long run. With imminent consolidation in the industry, we expect larger players to further consolidate their dominance in the industry.

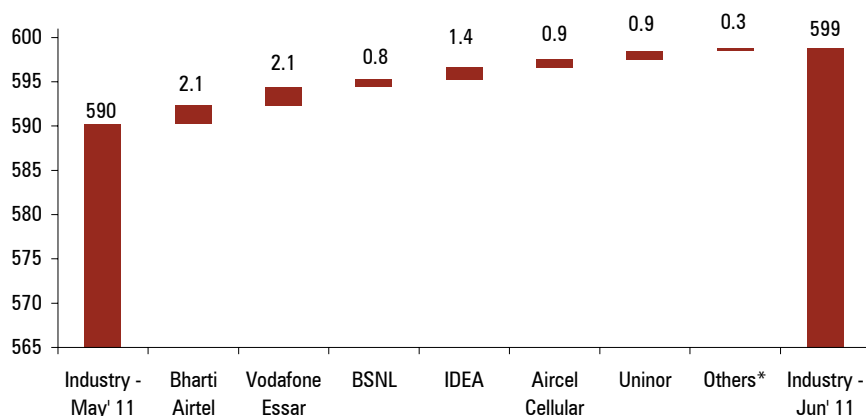
Among our coverage stocks, both Bharti Airtel and Idea Cellular have so far remained clear of any allegation, which is also reflective in their price performance vis-à-vis the broader market and its peers. Both Airtel and Idea have appreciated significantly in 12 months while RCom has declined 50.2% and the benchmark index is more or less flat over the same period. With expected turnaround in African operations and strongest key metrics among Indian telcos, Bharti Airtel remains our top pick in the sector.

### Exhibit 1: Operator wise net adds

Subscribers-net adds	Nov' 10	Dec' 10	Jan' 11	Feb' 11	Mar' 11	Apr' 11	May' 11	Jun' 11
Bharti Airtel	3.1	3.1	3.3	3.2	3.2	2.4	2.5	2.1
Vodafone Essar	3.1	3.1	3.1	3.6	3.6	2.4	2.4	2.1
BSNL	3.0	3.2	2.2	1.5	1.4	0.7	0.5	0.8
IDEA	2.8	3.0	2.5	2.5	2.7	2.5	1.8	1.4
Aircel Cellular	1.2	1.4	1.7	1.7	1.3	1.1	1.1	0.9
Uninor	2.4	2.3	1.8	1.3	1.2	1.5	1.1	0.9
Others*	1.4	1.0	(0.9)	1.0	1.0	0.6	0.1	0.3
<b>Total</b>	<b>17.2</b>	<b>17.1</b>	<b>13.7</b>	<b>14.7</b>	<b>14.5</b>	<b>11.1</b>	<b>9.5</b>	<b>8.6</b>

Source: COAI, ICICIdirect.com Research

### Exhibit 2: Subscriber wise addition in April



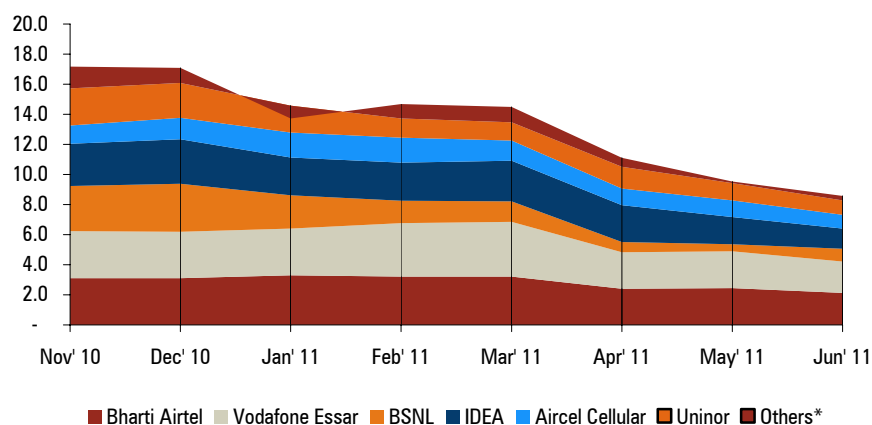
Source: COAI, ICICIdirect.com Research

### Exhibit 3: Total GSM subscribers

Company	Nov' 10	Dec' 10	Jan' 11	Feb' 11	Mar' 11	Apr' 11	May' 11	Jun' 11
Bharti Airtel	149.4	152.5	155.8	159.0	162.2	164.6	167.1	169.2
Vodafone Essar	121.2	124.3	127.4	130.9	134.6	137.0	139.4	141.5
BSNL	78.2	81.4	83.6	85.1	86.5	87.1	87.6	88.5
IDEA	78.8	81.8	84.3	86.8	89.5	92.0	93.8	95.1
Aircel Cellular	48.7	50.2	51.8	53.5	54.8	56.0	57.1	58.0
Uninor	16.2	18.5	20.3	21.6	22.8	24.2	25.4	26.3
Others*	17.1	18.1	17.2	18.2	19.2	19.8	19.9	20.2
<b>Total</b>	<b>509.6</b>	<b>526.7</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>

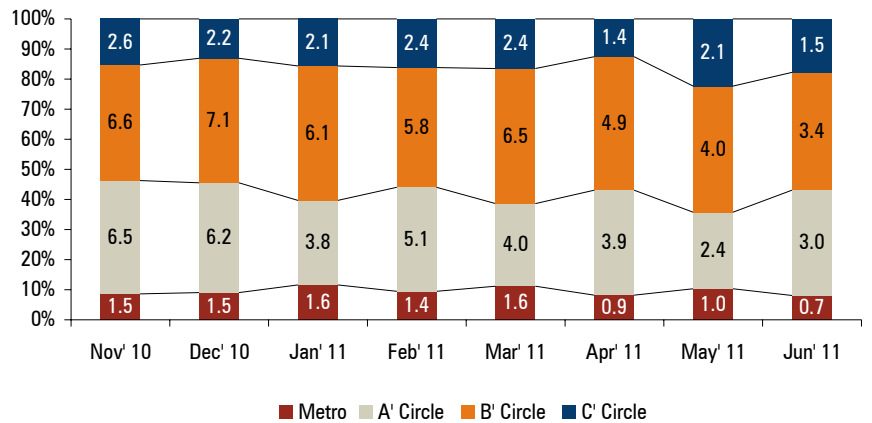
Source: COAI, ICICIdirect.com Research

### Exhibit 4: Subscriber net adds (Ex – Rcom and TTSL)



Source: Company, ICICIdirect.com Research

**Exhibit 5: Subscriber net adds (ex - RCom and TTSL)**



Source: COAI, ICICIdirect.com Research

**Exhibit 6: Subscriber market share**

Share in net adds	Nov' 10	Dec' 10	Jan' 11	Feb' 11	Mar' 11	Apr' 11	May' 11	Jun' 11
Bharti Airtel	29.3	29.0	28.8	28.6	28.5	28.3	28.3	28.3
Vodafone Essar	23.8	23.6	23.6	23.6	23.6	23.6	23.6	23.6
BSNL	15.3	15.5	15.5	15.3	15.2	15.0	14.8	14.8
IDEA	15.5	15.5	15.6	15.6	15.7	15.8	15.9	15.9
Aircel Cellular	9.6	9.5	9.6	9.6	9.6	9.6	9.7	9.7
Uninor	3.2	3.5	3.8	3.9	4.0	4.2	4.3	4.4
Others*	3.3	3.4	3.2	3.3	3.4	3.4	3.4	3.4
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: COAI, ICICIdirect.com Research

**Exhibit 7: Circle-wise subscribers**

Circle	Nov' 10	Dec' 10	Jan' 11	Feb' 11	Mar' 11	Apr' 11	May' 11	Jun' 11
Metro	63.5	65.0	66.6	68.0	69.6	70.5	71.5	72.2
A' Circle	177.4	183.7	187.5	192.6	196.6	200.4	202.8	205.8
B' Circle	197.0	204.0	210.2	216.0	222.5	227.4	231.4	234.8
C' Circle	71.7	74.0	76.1	78.5	80.9	82.3	84.4	85.9
<b>Total</b>	<b>509.6</b>	<b>526.7</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: COAI, ICICIdirect.com Research

**Recent events****▪ Huawei may bag managed services deal with Aircel worth \$120 million**

China's Huawei is in advanced talks to land a four-circle managed services (MS) contract valued in excess of \$120 million from Aircel. Huawei may ink a three-year MS deal for handling the gamut of network management, planning and maintenance of Aircel's GSM networks in Maharashtra & Goa, Karnataka, Andhra Pradesh and Kerala circles. Huawei will also be responsible for the upkeep of KPIs and service level agreements (SLAs).

**▪ Vodafone, Airtel, Idea sign 3G roaming pact**

Vodafone, Airtel and Idea Cellular have started sharing their networks to provide better services to their customers. It is also expected to lead to reduction in cost and offering of pan India 3G services. The three will now use each other's networks through inter and intra-circle roaming arrangements where they do not have licenses.

**▪ MTNL targets ₹ 1000 crore additional revenue within nine months**

MTNL is about to overhaul its marketing and customer care operations in Delhi and Mumbai to achieve a 25% revenue jump. MTNL has set itself a target of ₹ 1000 crore of additional revenue to achieve by the end of FY12, by focusing on customer care operations as well as by targeting a significant improvement in call completion rates.

**▪ Bharti Infratel tower arm eyeing ~500 million in IPO**

The tower arm of Bharti Airtel is planning an initial public offering (IPO) to raise at least \$500 million and is expected to file regulatory papers in September or October. Standard Chartered and Morgan Stanley are among the frontrunners to help manage the initial public offering.

## ICICIdirect.com coverage universe

Bharti Airtel				Sales (₹ Cr)	EPS (₹)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)	
Idirect Code	BHATE			FY10	39615.0	24.0	16.5	9.3	22.0	19.7
		CMP	396	FY11	59467.2	15.9	24.9	10.1	12.4	9.3
		Target	398	FY12E	71243.8	17.9	22.2	8.1	12.3	10.6
MCap (₹ Cr)	150,379	% Upside	0.5%	FY13E	80290.8	25.7	15.4	6.2	15.2	14.5
<b>RCOM</b>										
Idirect Code	RELCOM			FY10	21496.4	22.6	4.2	6.7	10.7	2.2
		CMP	95	FY11E	22430.4	6.5	14.5	6.1	3.8	2.6
		Target	90	FY12E	21860.3	4.0	23.4	7.7	2.3	2.8
MCap (₹ Cr)	19,515	% Upside	-4.6%	FY13E	23221.4	5.5	17.0	6.5	3.0	3.5
<b>Idea</b>										
Idirect Code	IDECEL			FY10	12397.9	2.9	27.5	10.1	8.0	6.8
		CMP	80	FY11E	15503.2	2.7	29.2	9.7	7.6	5.8
		Target	73	FY12E	18506.0	1.5	54.8	8.5	4.0	5.8
MCap (₹ Cr)	26,278	% Upside	-8.4%	FY13E	20259.5	1.9	42.2	7.1	5.2	6.5
<b>TTML</b>										
Idirect Code	HUGTEL			FY10	2098.3	-1.7	NA	20.6	-12.8	-2.8
		CMP	21	FY11	2303.1	0.4	39.8	25.8	3.2	-6.4
		Target	17	FY12E	2346.6	-3.4	NA	17.9	-26.1	-4.3
MCap (₹ Cr)	4,003	% Upside	-19.0%	FY13E	2538.5	-3.4	NA	16.5	-26.1	-4.2

Source: Company, ICICIdirect.com Research

## RATING RATIONALE

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### Sector view:

Over weight compared to index  
Equal weight compared to index  
Under weight compared to index  
Index here refers to BSE 500

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