

Telecommunications

Sector Update

Quarterly revenue market share performance

The Telecom Regulatory Authority of India (TRAI) has released the revenue data of the domestic telecommunication (telecom) companies for Q3FY2013. Broadly, the data reveals a muted growth for the sector coupled with a gain in the market share by the incumbents at the cost of new players. We believe the competitive and the regulatory environment is turning favourable for the incumbents. Hence, we maintain a cautiously optimistic stance on the sector, with our penchant for the industry leader, Bharti Airtel (Bharti).

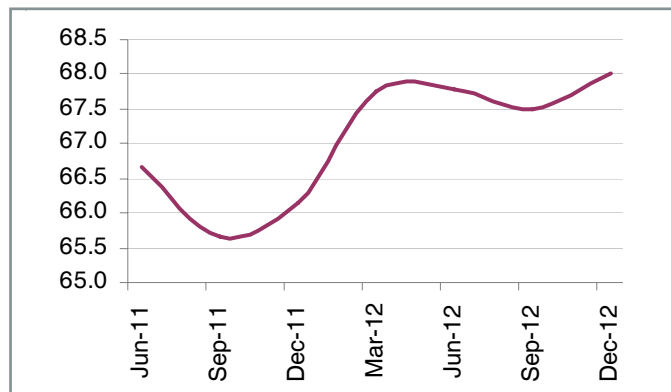
Key points

- ◆ **Despite festive season the all-India aggregate revenue growth was muted:** The aggregate all-India adjusted gross revenue (AGR) stayed flat on a quarter-on-quarter (Q-o-Q) basis at Rs25,773 crore. Though on a year-on-year (Y-o-Y) basis, the same increased by 1.7%.
- ◆ **Incumbents collectively continue to gain:** The aggregate revenue market share of the top three players (ie Bharti, Vodafone India [Vodafone] and Idea Cellular [Idea]) improved considerably over the last seven quarters and stood strong at 68% vs 66.2% for December 2011. The trend points strongly towards fast consolidation that is happening in the sector.
- ◆ **Individually incumbents display mixed trends:** Vodafone (+60 basis points quarter on quarter [QoQ]) and Idea (+60 basis points QoQ) were the major gainers while Bharti (-70 basis points QoQ) was the major loser during the quarter.
- ◆ **Metros witness decline in revenue base:** Another observation is the trend that despite the festive season, the growth in the metros was negative. The AGR of the metro circle declined by 1.5% QoQ to Rs42,66.1 crore, vindicating our stance that metros have reached at a saturation point, where the growth for the voice revenues is limited, and the next leg of growth would come from the value-added services and data services. The Category B circle posted a strong growth of 1.7% QoQ. The remaining circles posted a flat AGR for the quarter.

Consolidated market share of top three players at 68%; highest in seven quarters

Particulars	Dec12	Sep12	Jun12	Mar12	Dec11	Sep11	Jun11
Bharti	30.5	31.3	30.5	30.2	30.2	30.7	31.6
Vodafone	22.4	21.7	22.1	22.3	21.5	21.0	21.1
Idea	15.1	14.5	15.1	15.2	14.4	14.0	14.0
Top three players	68.0	67.5	67.8	67.8	66.2	65.7	66.7
RCoM	7.1	7.7	7.3	7.6	8.6	8.1	7.8
Tata Tele.	8.9	8.9	8.9	9.2	9.0	9.0	9.2

Trend in aggregate market share of Bharti, Vodafone and Idea



Key player-wise trend

Vodafone reports impressive gain in RMS

Vodafone reported a strong performance during the quarter. The company's AGR increased by approximately 3% QoQ to Rs5,767.2 crore. The healthy growth in AGR can be attributed to a robust performance by the company in the metro circle and Category A circle. Consequently, the company's revenue market share (RMS) improved by around 60 basis points sequentially to 22.4%.

Idea reports strong performance....

Idea posted a 4.1% increase in its all-India AGR to Rs3,887.8 crore owing to its strong performance in the Category B circle. The company's RMS stood at 15.1% for the quarter, which is an improvement of around 60 basis points on a sequential basis.

.... while Bharti disappoints

Bharti reported a 2.3% sequential decline in its AGR on account of over 5% fall in AGR in the metro circle and Category A circle each. Consequently, the company's RMS declined by around 70 basis points QoQ to 30.5%, thus reversing the trend of RMS gain of the last three quarters.

Reliance Communications—mediocre performance

Reliance Communications (RCoM) reported a poor performance during the quarter with the company's AGR declining by 7.2% sequentially. The company posted a sequential decline in all the circles, with the AGR of the metro circle and the Category A circle reporting a Q-o-Q decline of around 9% each. The company's RMS for the quarter stood at 7.1% as against 7.7% at the end of the September 2012 quarter.

Consolidation the way forward—Bharti, the preferred player

- ◆ We believe that till the time freebies, and discounted tariffs and coupons are prevalent in the sector, the revenues of the telecom companies will remain subdued. Now for the past three months, the players have been disciplined by slowly but steadily reducing the quantum of free minutes offered and reducing the discounted tariff rates. This discipline is likely to prove beneficial for the sector and the players overall. We believe that the current trend of reducing freebies if consistent will add to the industry top line, though the headline tariff hikes are still some quarters away.
- ◆ Further, consolidation in the sector is already gaining ground, as visible from the market share of the incumbents at 68%. Further developments in the months of January and February relating to the closure of Uninor's service will see a positive impact in the incumbents' report card in the coming quarter.
- ◆ On the regulatory front, after the decision taken by the telecom companies to not participate in the March 2013 spectrum auctions, the reserve process for the 1800-MHz spectrum is likely to be cut further. The companies have also managed to obtain a stay on the refarming of the 900-MHz spectrum. While we await further clarity on these issues, the developments are likely to benefit the incumbents.

- ◆ We believe that the fundamentals are gradually turning favourable for the top three incumbent players. Hence, we maintain our cautiously optimistic stance on the sector, with our preference for the industry leader, Bharti. Currently, we have a Hold rating for Bharti with a price target of Rs372.

Revenue market share (%)

Particulars	Dec-12	Sep-12	Dec-11
Bharti			
Metro	26.5	27.6	26.1
Circle A	31.5	33.1	32.2
Circle B	26.6	26.8	26.6
Circle C	44.8	43.4	40.6
All India	30.5	31.3	30.2
Vodafone			
Metro	32.1	30.0	29.4
Circle A	20.8	20.1	20.2
Circle B	23.1	23.0	22.6
Circle C	11.6	11.6	10.9
All India	22.4	21.7	21.5
RCoM			
Metro	8.7	9.4	11.5
Circle A	5.5	6.0	6.6
Circle B	7.0	7.3	8.0
Circle C	10.6	11.5	12.8
All India	7.1	7.7	8.6
Idea			
Metro	5.1	4.9	5.2
Circle A	15.9	15.2	15.4
Circle B	22.4	21.8	21.1
Circle C	5.3	5.1	4.6
All India	15.1	14.5	14.4
Tata Tele.			
Metro	13.1	13.3	12.8
Circle A	10.4	10.0	9.9
Circle B	6.5	7.0	7.2
Circle C	5.2	4.6	6.1
All India	8.9	8.9	9.0
Others			
Metro	14.6	14.8	15.0
Circle A	16.0	15.6	15.7
Circle B	14.4	14.1	14.5
Circle C	22.5	23.8	25.1
All India	16.0	16.0	16.2

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