

Multi-sector

2G verdict could hasten consolidation, low impact on NPLs

Sector Update

Funding of capex for new licenses (INRmn)

Upfront license fees	90,567
Other capital expenditure	40,755
Total capital funding	131,322
Equity (including loans from promoters)	72,227
Debt	59,095

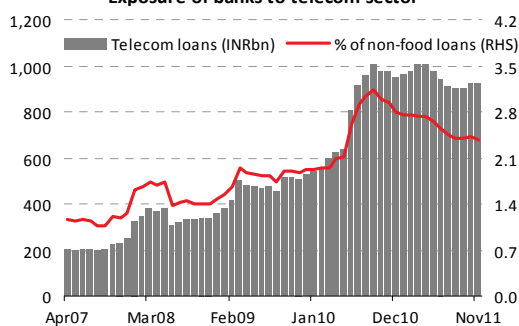
Source: TRAI, Avendus Research

Market share of cancelled licenses

Entity	Licenses Cancelled	Subscribers share (%)	Gross revenue share (%)
Uninor	22	4.1	1.9
TTSL	3	0.0	0.1
Etisalat DB	15	0.2	0.1
IDEA	13	0.7	0.5
MTS	21	1.4	0.8
Loop	20	0.0	0.0
S Tel	6	0.4	0.1
Datacom	22	0.6	0.4
Total	122	7.5	4.0

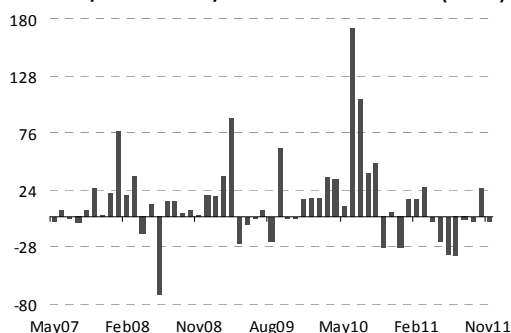
Source: TRAI, Bloomberg, Avendus Research

Exposure of banks to telecom sector



Source: RBI, Avendus Research

Increase/decrease in o/s loans to telecom sector (INRbn)



Cancellation of 122 2G licenses is likely to induce consolidation in the Indian telecom industry. This may enable pricing stability. IDEA may bid and win back spectrum in the seven circles where licenses are to be cancelled. However, the additional cash outgo is likely to weigh on earnings. Bank funding for 2G spectrum is estimated at 0.2% of non-food loans, a large part of which may already have been restructured or have turned into NPLs. Therefore, the incremental impact on asset quality is likely to stay low. Also, transfer of assets to incumbents may improve the viability of the business and improve the debt-servicing ability. **Positive for BHARTI; marginally negative for IDEA, SBIN, PNB and IDBI.**

License cancellations likely to induce consolidation

The Supreme Court has ordered cancellation of 122 licenses issued since 2008. The court has directed the government and TRAI to formulate a new policy for issuing licenses and conduct spectrum auctions. While holders of cancelled licenses can continue operations for four more months, they could reacquire the spectrum through auctions. However, it is uncertain if all 122 licensees may bid in the spectrum auctions to be held later. Hence, the number of TSPs is likely to reduce. This may enable pricing stability, with an upward bias.

Cost of intangible assets likely to weigh on IDEA's earnings

Idea Cellular (IDEA IN, Hold) may participate in spectrum auctions to maintain its pan-India presence. There is limited clarity on refund of the license fees paid for the licenses ordered to be cancelled. However, if IDEA manages to win spectrum in all seven circles, we estimate the cash outgo to be higher than the INR3.3bn paid earlier. The higher cost of intangible assets is likely to lead to an increase in depreciation and interest costs and may impact earnings.

Total loans to fund 2G spectrum limited to 0.2% of non-food loans

Funding to new licensees for the upfront license fee and capital expenditure is estimated at cINR59bn, at 0.2% of total non-food loans. About 19% of the amount has been lent by State Bank of India (SBIN IN, Buy). Since a part of the exposure is likely to have already been restructured or become an NPL due to negative cash flows of most new licensees, the incremental impact on the slippage of banks may be low. The telecom sector accounts for 4% (INR9.8bn) of total restructured loans of Punjab National Bank (PNB IN, Buy).

Initial reaction of banking stocks may be unjustified

The sharp correction in banks after news of license cancellation may be unjustified. RBI may allow restructuring of these loans in the near term. Also, if assets (2G spectrum) are transferred to incumbents, the viability of assets may improve over the medium term; thereby, improving the debt-servicing ability.

Positive for BHARTI; marginally negative for IDEA and select banks

Reducing competition is positive for Bharti Airtel (BHARTI IN, Buy). While IDEA may also gain from low competition, the higher cash outgo for any future spectrum wins may weigh on earnings. The relatively high exposure of SBIN, PNB and IDBI Bank (IDBI IN, Buy) to 2G loans is likely to be marginally negative for asset quality.

Exhibit 1: Market share of cancelled licenses in subscribers and gross revenue

	Uninor	TTSL	Etisalat DB	IDEA	MTS	Loop	S Tel	Datacom	Total
Licenses cancelled	22	3	15	13	21	20	6	22	122
Subscribers (mn)	36.3	0.3	1.7	6.7	12.7	0	3.6	5.4	66.6
Subscriber share (%) *	4.1	0.0	0.2	0.7	1.4	0.0	0.4	0.6	7.5
Gross revenue share (%) #	1.9	0.1	0.1	0.5	0.8	0.0	0.1	0.4	4.0

Source: TRAI, Bloomberg, Avendus Research.

Note: * - Data at end Dec11. # - Data for quarter ending Sep11

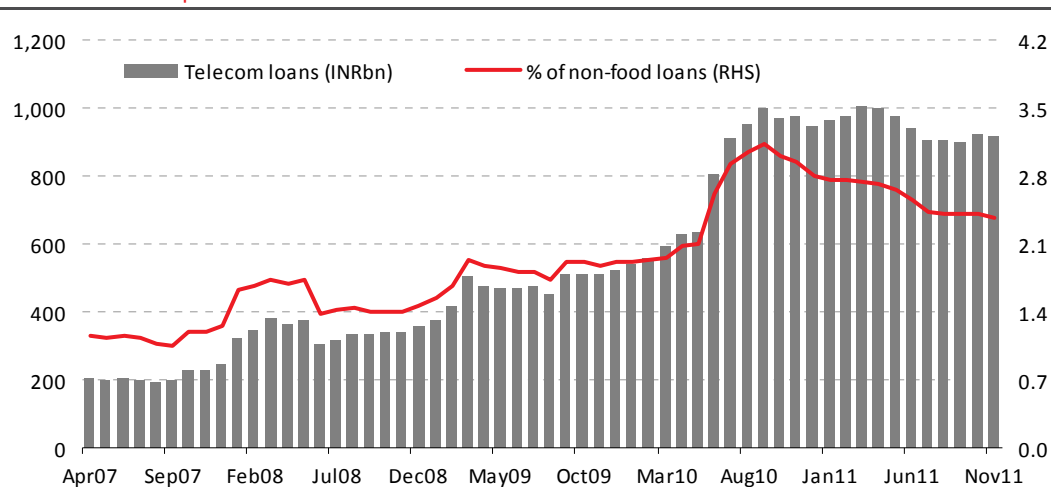
Exhibit 2: One-time license fees paid for the cancelled licenses (INRmn)

Circles	Uninor	TTSL	Etisalat DB	IDEA	Spice Com.*	MTS	Loop	S Tel	Datacom
Delhi	1,707		1,707		1,707	1,707	1,707		1,707
Mumbai	2,037		2,037			2,037			2,037
Kolkata	780			780		780	780		780
Maharashtra	1,890		1,890		1,890	1,890	1,890		1,890
Gujarat	1,090		1,090	0		1,090	0		1,090
A.P.	1,030		1,030	0	1,030	1,030	1,030		1,030
Karnataka	2,068		2,068	2,068		2,068	2,068		2,068
Tamil Nadu	2,330		2,330	2,330		2,330	2,330		2,330
Kerala	405		405	0		405	405		405
Punjab	1,518		1,518	1,518		1,518	1,518		1,518
Haryana	215		215	0	215	215	215		215
U.P.(W)	306		306	0		306	306		306
U.P.(E)	453		453	0		453	453		453
Rajasthan	323		323	0		0	323		323
M.P.	175		175	0		175	175		175
W. Bengal	10			10		10	10		10
H.P.	11			0		11	11	11	11
Bihar	100		100	0		100	100	100	100
Orissa	50			50		50	50	50	50
Assam	50	50		50		50	50	50	50
N. East	20	20		20		20	20	20	20
Jammu & Kashmir	20	20		20		20	20	20	20
Total	16,586	90	15,645	6,846	4,842	16,263	13,459	251	16,586

Source: TRAI, Avendus Research.

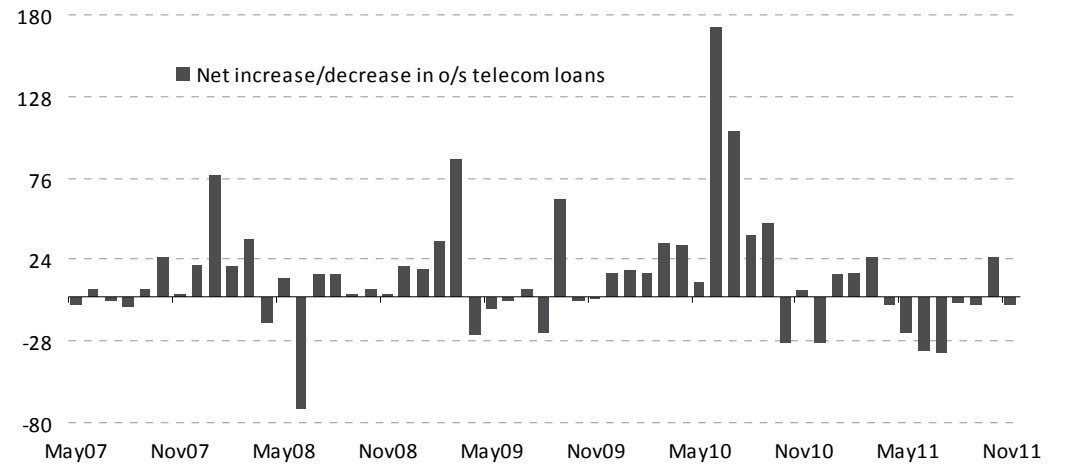
Note: * Spice Communications was acquired by IDEA

Exhibit 3: Total exposure of banks to the telecom sector



Source: Company, Avendus Research

Exhibit 4: Net increase/decrease (INRbn)



Source: Company, Avendus Research

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