

FINALLY 3G AUCTIONS DONE...GOVERNMENT EARN A WINDFALL

The 3G auction had commenced on 9 April, 2010 and there were nine bidders in the fray for the slots of 3G spectrum on the block. The government auctioned three slots in 17 telecom service areas and four slots in the remaining five states of Punjab, Bihar, Orissa, Jammu and Kashmir and Himachal Pradesh.

After 34 days, 3G auction ended yesterday at a winning bid-price of **Rs167.5bn (US\$3.6bn)** for pan-India spectrum. All the available slots across 22 circles have been sold to seven different operators. However, there was no single bidder who won pan-India spectrum. Among the bidders, Idea paid Rs 5,768 crore for 11 circles, Bharti paid Rs 12,295 crore for 13 circles, Vodafone paid Rs 11,617 crore for 9 circles, RCom paid Rs 8,585 crore for 13 circles, Aircel paid Rs 6,499 crore for 13 circles, Tata Tele paid Rs 5,864 crore for 8 circles and S Tel shelled out Rs 337 crore for 3 circles. Videocon and Etisalat did not get any 3G spectrum in any circles. BSNL and MTNL received spectrum outside the auction process, and would be required to pay Rs. Rs.16750 crore. **Delhi emerged the most valuable circle at Rs 3,317 crore, followed by Mumbai at Rs 3,247 crore.** Consumers can expect to get 3G services by the end of the year given that the spectrum will be released to the winning operators by September 2010. The 3G auction will be followed by an auction for Broadband Wireless Access (BWA) for which 11 firms are vying for two national licences for private operators, with one slot reserved for state telecoms firms.

3G Auctions – Government to gain at the expense of Operators

With 3G and Broadband Wireless Access (BWA) spectrum auction revenue likely to touch Rs 80,000 crore and crude price falling to \$68 per barrel, the fiscal deficit of the government is expected to come down below 5% in 2010-11, from the projected figure of 5.5%. In the Budget, the government had provided for Rs 36,000 crore from the auction of spectrum. In the 3G spectrum auction, the government will receive Rs 67,719 crore. According to market sources, the government is likely to garner an additional Rs 12,000 crore from BWA auction. So, total revenue from the spectrum action will be around Rs. 80,000 crore, much higher than what was estimated in the Budget.

While this is good news for the Government, it was a definite strain on the part of the Telecom Operators. According to a Bharti official, the auction format and severe spectrum shortage along with ensuing policy uncertainty, drove the 3G prices beyond reasonable levels. The unexpectedly high bids means that companies have to raise a huge amount of cash to pay for licences, after which they will have to find more funds to buy equipment and roll out services. With cost of debt rising, we believe most of

these Companies will go for equity dilution. Also, on an EBITDA level, the 3G business will not break-even before 2-3 years. BWA auctions will be another negative for the telecom stocks and mobile number portability launch could trigger another tariff war.

CIRCLE wise 3G Provisional Winners										
	Bharti	Voda	Rcom	Idea	Tata	Aircel	S Tel	BSNL/MTNL	Total 3G slots	Amount/slot
Metros										(in Rs.Crore)
Delhi	BHARTI	VODA	RCOM					MTNL	4	3316.93
Mumbai	BHARTI	VODA	RCOM					MTNL	4	3247.07
Kolkata		VODA	RCOM			AIRCEL		BSNL	4	544.26
Category A										
Maharashtra		VODA		IDEA	TATA			BSNL	4	1257.82
Gujarat		VODA		IDEA	TATA			BSNL	4	1076.06
Andhra Pradesh	BHARTI			IDEA		AIRCEL		BSNL	4	1373.14
Karnataka	BHARTI				TATA	AIRCEL		BSNL	4	1579.91
Tamil Nadu	BHARTI	VODA				AIRCEL		BSNL	4	1464.94
Category B										
Kerala				IDEA	TATA	AIRCEL		BSNL	4	312.48
Punjab			RCOM	IDEA	TATA	AIRCEL		BSNL	5	322.01
Haryana		VODA		IDEA	TATA			BSNL	4	222.58
Uttar Pradesh (W)	BHARTI			IDEA	TATA			BSNL	4	514.04
Uttar Pradesh (E)		VODA		IDEA		AIRCEL		BSNL	4	364.57
Rajasthan	BHARTI		RCOM		TATA			BSNL	4	321.03
Madhya Pradesh			RCOM	IDEA	TATA			BSNL	4	258.36
West Bengal	BHARTI	VODA	RCOM			AIRCEL		BSNL	5	123.63
Category C										
Himachal Pradesh	BHARTI		RCOM	IDEA			S TEL	BSNL	5	37.23
Bihar	BHARTI		RCOM			AIRCEL	S TEL	BSNL	5	203.46
Orissa			RCOM			AIRCEL	S TEL	BSNL	4	96.98
Assam	BHARTI		RCOM			AIRCEL		BSNL	4	41.48
North East	BHARTI		RCOM			AIRCEL		BSNL	4	42.30
Jammu & Kashmir	BHARTI		RCOM	IDEA		AIRCEL		BSNL	5	30.30
Total Circles	13	9	13	11	9	13	3	22		
Total Amt Operator Wise (Rs. Crore)	12295.5	11617.9	8585.0	5768.6	5864.3	6499.5	337.7	16750.6		

Source: DoT, GSL Research

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