As the year draws to a close, India's telecom industry is hoping for a better 2014, especially on the policy and regulatory fronts. {K2Splitter} As the year draws to a close, India's telecom industry is hoping for a better 2014, especially on the policy and regulatory fronts. The long distance service segment has started witnessing significant activity, with both the Telecom Regulatory Authority of India (TRAI) and the Department of Telecommunications (DoT) trying to get the segment back on the growth track.

In June 2013, TRAI announced the 55th amendment to the Telecommunication Tariff Order, which sets a new framework for roaming charges. TRAI did not support the implementation of free roaming services as proposed in the National Telecom Policy, 2012. The regulator contended that providing free national roaming services would significantly increase the cost burden for operators. It also stated that telecom operators would not be able to recover their interconnect costs from roaming subscribers, which account for about 13 per cent of the total 860 million subscribers. Moreover, in order to recover an estimated Rs 130 billion revenue loss on account of free roaming, they would be forced to hike call rates for the 600 million-odd non-roaming subscribers. "In nearly all the cases, this would mean the poor subsidising the rich, which would be unfair," noted a TRAI statement.

Therefore, TRAI lowered the ceiling for national roaming calls and SMSs. As per the amendment, the ceiling for local outgoing calls has been reduced from Rs 1.40 per minute to Re 1 per minute, while the ceiling for national long distance (NLD) outgoing calls has been lowered from Rs 2.40 per minute to Rs 1.50 per minute. For incoming calls while roaming, the ceiling has been reduced from Re 1 per minute to Re 0.75 per minute. The charge for SMSs, which ranged from Rs 1.50 to Rs 3.50, has now been fixed at Rs 1.50 for an NLD SMS and Re 1 for a local SMS. Further, TRAI has made it mandatory for operators to offer special plans under which frequently roaming subscribers can avail of free national roaming for an additional fixed charge.

Since most operators including Bharti Airtel, Vodafone India, Idea Cellular, Tata Teleservices Limited and Aircel were already offering roaming services at the new ceiling prices (outgoing NLD calls at Rs 1.50 per minute and outgoing local calls at Re 1 per minute), the impact of the amendment was minimal.

Moreover, in August 2013, DoT issued the long-awaited migration guidelines which pave the way for internet service providers like Reliance Jio Infocomm and Tikona (which have broadband wireless access spectrum) to offer mobile telephony services by paying an additional fee of Rs 16.58 billion. This would bring down international call charges significantly.

The latter half of 2013 also witnessed a series of tariff cuts for international calling. The tariff war began with messaging application provider Nimbuzz joining hands with Spectranet to offer calls from India to the US at Re 0.60 per minute. Following this, telecom operators revised their international call tariffs. For example, Vodafone India launched two international roaming packs offering a 95 per cent discount on data and 78 per cent discount on outgoing international calls.

There are 26 players in the NLD and international long distance (ILD) space. These include players like AT&T Global Network Services India Limited, BT Global Communications India, Tikona Infinet Limited, Quadrant Televentures and HCL Comnet Systems and Services Limited. As of September 2013, Bharti Airtel registered the highest gross revenue in the NLD segment at Rs 25 billion, followed by Bharat Sanchar Nigam Limited (BSNL) at Rs 14.76 billion and Vodafone Essar South at Rs 14.16 billion.

In the ILD segment, the biggest gainers in terms of gross revenue for the quarter ended September 2013 were Bharti Airtel (Rs 11.35 billion), Reliance Communications (RCOM) (Rs 3.61 billion) and BSNL (Rs 3.36 billion).

Players with the lowest gross revenues in the quarter ended September 2013 include Citycom Networks Limited (Rs 300,000), Tulip Telecom (Rs 22.7 million) and Unitech Wireless (Tamil Nadu) (Rs 82.79 million).

Service providers' gross NLD revenues for the quarter stood at Rs 83.91 billion, accounting for 16.6 per cent of overall adjusted gross revenue (AGR). ILD service revenues stood at Rs 34.19 billion or 4.12 per cent of the AGR.

tele.net examines the performance of some key players in this segment…

Bharti Airtel

In 2001, Bharti Airtel (then Bharti Telesonic) became the first private operator to launch NLD services under the IndiaOne brand.

Initially, the company had laid 12,000 km of optic fibre cable (OFC) across 50 cities. Thereafter, it forayed into the ILD segment in April 2002 under the IndiaOne brand. To support these services, the company established two international gateways, in Chennai and Mumbai. IndiaOne had also signed bilateral agreements with several international carriers to establish the network backbone for these services.

It has come a long way since then. To meet the increasing demand for data services, the company has consistently focused on enhancing the capacity and reach of its long distance network. In the past four to five years, Bharti Airtel has invested $500 million in building next-generation cable systems. It has invested in multiple global submarine cable systems to serve its carrier and enterprise customers.

Currently, the company's network spans 225,000 route km, covering 50 countries and five continents. As of September 30, 2013, it operated seven submarine cable systems. Airtel has built NLD infrastructure as well. It currently has a pan-Indian NLD network comprising 175,705 km of OFC.

This year has been a mixed one for the company with regard to long distance services. In July 2013, DoT imposed a penalty of Rs 6.5 billion on the company for offering long distance services to roaming subscribers at the price of local calls between 2002 and 2005. DoT's contention is that such calls bypass the long distance network which is against the existing licence conditions.

These challenges notwithstanding, the company has continued to sign new contracts and launch several offerings for its customers. For example, it recently signed an interconnection agreement with RailTel Corporation of India Limited for routing its intercircle and ILD calls through the latter's NLD network. Similarly, RailTel would hand over all incoming international calls received from the gateways of ILD operators meant for termination on Airtel's network.

However, the agreement does not include international toll-free services, intelligent network services as well as other similar systems meant for personal communication.

In all, the company's long distance segment performed well over the past year. Data usage per customer (considering the company's inter- and intra-city OFC and submarine cable networks) increased by 72.9 per cent from 133 MB per month in the quarter ended September 2012 to 231 MB per month in the quarter ended September 2013. Data traffic grew by 111.8 per cent to 33.6 billion MB during this period, while the realisation was stable at around Re 0.30 per MB. Consequently, the data ARPU increased from Rs 43 to Rs 70.

The company has been taking steps to increase the capacity of the i2i submarine cable system in order to offer high bandwidth services to customers in business hubs across the Asia-Pacific region. It is reportedly in advanced stages of negotiation with Ciena to purchase optical network gear. This step makes good business sense for the company as the next wave of growth in the telecom space is expected to be driven by broadband access, and telecom companies offering high capacity data access through submarine networks with cable landing rights will have an edge in terms of offering lower costs.

RCOM

RCOM entered the long distance segment in mid-2003, following Bharti Airtel.

Today, the company has robust infrastructure in place, both within the country and overseas. For its enterprise customers in India, RCOM has established 190,000 km of OFC, which connects over 600,000 villages and 24,000 towns to key business markets in India, the US, Europe, the Middle East and Asia Pacific. Outside India, the company (through its subsidiary, Reliance Globalcom) has over 277,000 km of OFC, with landing points in 30 countries. This set-up manages over 60,000 customer sites in 163 countries through 700 carrier partners and is integrated with the company's domestic OFC network. Also in place is a metro Ethernet network, with connectivity across 26 cities outside India.

For its retail customers, RCOM offers virtual international calling services to 200 countries (including India) under the Reliance Global Call brand. These retail services are available in 14 countries and the segment has a subscriber base of over 2.5 million.

This year has been a busy one for the operator, particularly in this segment. To drive NLD services, it recently launched the STV 45 prepaid pack in Jammu & Kashmir for GSM customers. All STD calls are pegged at Re 0.25 per minute for the first 700 minutes of usage. Thereafter, all STD calls are priced at Re 0.40 per minute. The pack is valid for 28 days.

In a bid to increase its revenue per minute, the company hiked tariffs by 20 per cent and reduced promotional and concessional offers by 65 per cent. Moreover, to expand network coverage at a minimum capex, RCOM has signed several intra-circle roaming agreements. Under this arrangement, 10,000 sites are to be shared on a bilateral basis. These agreements are aimed at creating an additional addressable market of 150 million and an additional business of about $1.6 billion.

Another significant development in 2013 was the company signing an intercity OFC sharing agreement worth $200 million with Reliance Jio Infocomm. As per the agreement, RCOM's 120,000 km intercity OFC network can be utilised by Reliance Jio Infocomm and the former will have reciprocal access to the latter's network.

Reliance Globalcom recently partnered with the Ciena Corporation to upgrade the former's north submarine cable system. Also, Reliance Globalcom will be able to provide high speed, low-latency connectivity between London and New York.

The company's initiatives in this segment seem to be paying off. For the quarter ended September 2013, RCOM had a share of 30 per cent in the wholesale inbound ILD traffic. Moreover, the total number of NLD minutes on its network increased from 4,797 million minutes in the quarter ended June 2013 to 4,879 million in the quarter ended September 2013. Also, as per TRAI, gross revenue from the company's NLD services stood at Rs 8.73 billion in the quarter ended September 2013. Meanwhile, gross revenues from ILD services stood at Rs 3.61 billion for the same period.

Tata Communications

With infrastructure comprising over 400 points of presence (PoPs) and 200,000 km of fibre spread globally, Tata Communications has come a long way since its incorporation in 1986.

Over the past decade, it has transitioned from a pure-play long distance service provider in India to a globally integrated communication solutions company. This transition has been marked with both organic and inorganic growth.

In 2000, the Tata Group acquired majority stake in the erstwhile Videsh Sanchar Nigam Limited and subsequently rechristened the company Tata Communications. Since then, over $2 billion has been invested in building and strengthening its global assets, services and capabilities. The company's entry into the enterprise and data service market in mid-2000s with an aggressive overseas business approach helped it shed its state run monopoly image. Tata Communications marked a major milestone in 2005 by acquiring Tyco Global Network. This was followed by the takeover of Teleglobe International Holding in 2006. These acquisitions added to the company's revenue pool and provided it access to one of the world's largest submarine cable networks. Tata Communications followed this up with strategic investments in South Africa (Neotel), Sri Lanka (Tata Communications Lanka Limited), Nepal (United Telecom Limited), the US (BitGravity) and a venture with BT, through which the UK-based operator largely outsources its wholesale voice business to the company. Moreover, it has made significant investments in the cloud computing and the media and entertainment segments.

The company has a large presence in the Indian and global voice, data and managed services markets. Its domestic network comprises 50,000 km of fibre backbone spread across 100 cities. According to TRAI, the company's gross revenue from NLD services for the quarter ended September 2013 stood at Rs 3.66 billion. Gross revenues from the ILD segment for the period stood at Rs 4.26 billion.

In 2013, Tata Communications expanded its product portfolio and signed several contracts. One such initiative was the launch of a network of white label ATMs in India by Tata Communications Payment Solutions Limited. In the first half of 2013-14, TCPS generated Rs 2.32 billion, and going forward, it expects revenues to grow with the increasing number of such ATMs.

In the global market, Tata Communications accounts for 20 per cent of the lit capacity and has a 19 per cent share in the international wholesale voice minutes space. It carries nearly 10 per cent of global internet traffic and its customer portfolio comprises 1,600 carriers and 700 mobile operators.

Financially, the company is on a strong wicket. For the second quarter and first half of 2013-14, a significant part of the company's capex was utilised for strategic projects in the area of undersea cables and data centres, and for expanding data networks and capacity. The current capex is focused on strategic projects and the global data services segment.

Revenues from operations stood at Rs 49.52 billion in the quarter ended September 2013, as compared to Rs 44.98 billion in the previous quarter, marking a quarter-on-quarter increase of 10.1 per cent.

Meanwhile, the company's global voice services business generated gross revenues of Rs 24.29 billion during the quarter ended September 2013, while gross revenues from its global data business stood at Rs 19.89 billion. In the first half of 2013-14, gross revenues from new services – CDN, UCC (enterprise voice and business video), media and entertainment services, mobile broadband and cloud – stood at $64 million. The company expects growth in this space, through the expansion of services that were launched during this period.

Going forward, the company's key focus areas will include expanding its data centre, UCC and business video footprint and portfolio, consolidating its presence in the Ethernet space, and enabling cloud- and mobile broadband-based services.

BSNL

BSNL's operations continued to be on a downward trajectory in 2013. The operator has been under tremendous pressure across business segments (except the internet and broadband, and rural telephony segments) over the past two years. Owing to stiff competition and frequent tariff cuts, the company's market share dropped to 13.05 per cent in the quarter ended June 2013 from 13.55 per cent in the quarter ended March 2013.

Therefore, the operator spent the better part of 2013 stemming the slide across its businesses. In fact, as per industry analysts, BSNL should strengthen its focus on this segment, considering its extensive infrastructure comprising over 650,000 km of OFC network across the country, which is significantly larger than any other pan-Indian player's infrastructure. It also has a wide network of copper wires and tower sites covering almost all populated villages in the country through village public telephones.

A major development in the long distance space was the company joining hands with Mahanagar Telephone Nigam Limited (MTNL) to offer pan-Indian mobile services. As per the agreement, MTNL will use BSNL's network for providing national roaming services except in Delhi and Mumbai.

Similarly, BSNL will use MTNL's network for offering roaming services in Delhi and Mumbai. MTNL would transfer all its NLD traffic to BSNL. In addition, there will be improved synergies between these companies in terms of operational and commercial issues, customer delivery, IT integration, infrastructure sharing and business promotion. The move will help the companies reduce roaming costs.

Meanwhile, to encourage uptake of these services, BSNL reduced national roaming tariffs in July 2013 and introduced several plans for prepaid and post-paid customers. The Roaming Free Plans offer customers travelling outside their circle free incoming calls and outgoing calls at lower rates. The operator has reduced incoming call charges on national roaming by 25 per cent, from Re 1 to Re 0.75 per call.

The company has also reduced international call tariffs by over 75 per cent with the launch of special tariff vouchers priced at Rs 23 and Rs 41.

As per TRAI, BSNL's revenues from the NLD segment stood at Rs 14.76 billion in the quarter ended September 2013. ILD revenues for the same period stood at Rs 3.36 billion.

MTNL

The state-run operator has extensive infrastructure to offer long distance services. It has an OFC network spanning 16,345 route km and 49,626 leased circuits. As per the company's 2012-13 annual report, net revenue from long distance services stood at Rs 1.4 billion in the year ended March 31, 2013, while that from roaming services stood at Rs 2.8 billion during the same period.

Over the past two years, the company has been taking steps to enhance its network capacity. For example, in 2008, MTNL commissioned a state-of-the-art IP-MPLS core network in Delhi and Mumbai to establish a converged IP network for its services. In 2011-12, the company worked on the expansion of this network to improve service delivery. It deployed around 100 million and 70 EDGE and aggregate routers in Delhi, and 100 million and 67 EDGE and aggregate routers in Mumbai. This helped MTNL establish around 50 PoPs in Delhi and Mumbai.

Moreover, in order to meet the increasing bandwidth demand, the company added OFC in the access network and deployed fibre-to-the-home (FTTH) infrastructure based on gigabit passive optical networks (GPONs). The company has already launched data services on FTTH commercially and will launch voice services on the network in the near future.

MTNL has introduced several offerings for its customers. For example, MTNL Mumbai has launched two roaming tariff plans for prepaid and post-paid customers. The MTNL prepaid roaming tariff plan and the roaming free incoming plan offer customised roaming rates and entail monthly rentals of Rs 89 and Rs 310 respectively.

Going forward, the segment is likely to be a key focus area for MTNL – it plans to expand its services based on technologies such as IP-MPLS, FTTH based on GPON and access networks.