The Indian telecom industry has, in recent years, been characterised by hypercompetition, low ARPUs, shrinking margins, and regulatory and policy uncertainty. The high outgo on 3G spectrum acquisition during 2010 had left operators reeling under a huge debt burden, which has continued to weigh on their books, impacting their financial position significantly. The 2G spectrum controversy and regulatory uncertainty impacted operators' business growth and future plans in a big way. Moreover, saturating voice markets have left little head room for operators. Consequently, they have been looking for new opportunities to drive business and revenue growth.

In such a scenario, data has emerged as a key service segment for operators and the increasing subscriber appetite for these services offers significant opportunities. Maxis Communications-led Aircel also spent the better part of last year fine-tuning its strategies to tap the segment's potential. In fact, Aircel, which has 3G spectrum in 13 circles and 4G in eight circles, is better placed than many of its peers to cater to the surging demand for data. The 3G business contributed around 40 per cent to the company's total data revenues in 2013, up from 29 per cent in 2012. According to the company, its 3G subscriber base grew by 74 per cent during the same period. This strong growth in the data subscriber base and revenue is due to several initiatives taken by Aircel during the past year. These range from launching innovative data plans at affordable rates to forming strategic partnerships with handset manufacturers to encourage higher data usage.

Meanwhile, the company's finances, which have been in the red for the past few years, have shown no signs of improvement. According to the Department of Telecommunications, Aircel currently has a negative net worth of Rs 41.98 billion, which is in sharp contrast to the net worth of incumbents such as Bharti Airtel, Idea Cellular and Vodafone India, which stands at Rs 612.21 billion, Rs 127.22 billion and Rs 76.52 billion respectively. Late entrants to the market such as Uninor and newcomer Reliance Jio Infocomm Limited (RJIL) too are better placed with a net worth of Rs 27.87 billion and Rs 50.26 billion respectively. While Aircel claims that the numbers released by DoT do not reflect the true picture (as they do not take into account the quasi-equity infused by the promoter company), industry analysts assert that the numbers are not too far from the reality. Aircel had reported losses of about Rs 115 billion in 2012 and is estimated to be sitting on a debt pile of Rs 200 billion-Rs 240 billion. The poor state of the company's finances has made it a strong target for acquisition by players such as Vodafone India and Sistema Shyam TeleServices Limited (SSTL), which have expressed interest in taking over the company's operations.

On a downward trajectory

Aircel forayed into the Indian market in 1999 and focused mainly on Tamil Nadu and other southern circles during the initial years. It was in late 2005 when Malaysia-based Maxis Communications acquired 74 per cent stake in the company that it witnessed a significant turnaround. In less than four years of the acquisition, Aircel joined the bandwagon of players like Bharti Airtel, Vodafone India and Reliance Communications (RCOM) that were offering pan-Indian services. Meanwhile, the southern and north-eastern circles, in which Aircel held substantial market share, continued to be the key drivers for business growth. This was reflected in the company's strategy while bidding for 3G spectrum in 2010, wherein it bought spectrum in 13 circles, most of it in the southern and north-eastern regions. These circles account for about 90 per cent of the company's total subscriber base and revenues.

However, the industry-wide tepid response to 3G services, the controversy surrounding the Aircel-Maxis deal and the company's alleged involvement in the 2G scam have had a serious bearing on its operations, market position, finances and credibility. Aircel had to pay a huge sum for 3G (Rs 65 billion) and broadband wireless access (BWA) (Rs 34.38 billion) spectrum, a part of which was raised through loans and borrowings. Having launched 3G services in all its licensed circles by mid-2011, the operator was looking to recover a large part of this debt and some additional amount for 2G expansion. However, its plans went awry when 3G services failed to take off. Also, Aircel's move to acquire BWA spectrum in eight circles when it did not have definite service roll-out plans in place impacted its finances adversely. Evidently, Aircel's 4G spectrum has been lying unutilised for about four years now and it has only recently announced its plans to launch services, and that too in select circles.

From an operational point of view too, the company has failed to match the sector's growth momentum. The entry of players such as Uninor and SSTL has also resulted in significant subscriber churn. As of November 30, 2013, Aircel, which was once aiming to be among the top three players in the industry, was ranked sixth in the wireless pecking order, with a subscriber base of 65.28 million and a market share of 7.41 per cent. However, only 64 per cent of the total subscriber base is active, indicating the huge amount of idle network capacity.

Data as a key growth driver

Aircel has been leveraging opportunities arising from emerging technologies like Wi-Fi and 3G. It currently has a network of over 50,000 Wi-Fi hotspots, which would help the company ease network congestion once 3G and 4G services gain traction. Aircel has also been making concerted efforts to enhance its 3G user base by bringing the majority of its 2G subscribers on to the 3G network. It introduced unified data tariffs, wherein customers were given the flexibility to use 2G and 3G services by availing of the same pack. The 3G Mornings service was

introduced to help induce free 3G trials on the company's networks. Tie-ups with Micromax and D-link are other examples of affordable innovations, wherein Aircel introduced reverse bundling offers for customers. Further, it introduced the Pocket Internet 24 scheme to target first-time internet users by offering data services at less than Re 1 per day.

The operator is betting big on data services to achieve a turnaround. In December 2013, it partnered with ZTE to roll out 4G networks, which it plans to launch soon. So far, Bharti Airtel is the only operator in India to offer 4G services based on long-term evolution technology. However, the circles where Aircel holds 4G licences are different from those where Bharti Airtel holds spectrum. RJIL, on the other hand, poses a serious threat to Aircel's 4G aspirations as it holds pan-Indian BWA spectrum and has been gearing up to launch services. However, in the initial phase, Aircel will launch these services in the southern circles, where it is on a stronger footing than its peers.

Return to profitability

Industry analysts have, in the past, asserted that the company's inefficiency in devising strategies for its non-profitable circles has been one of the key deterrents to its growth. To achieve operational efficiencies, it undertook a major business restructuring exercise, which included pruning of operations in a few non-profitable circles. The company has decided to not add subscribers in the Uttar Pradesh (West), Madhya Pradesh and Haryana circles. Meanwhile, it has downsized operations in Gujarat and Kerala. This move is likely to improve revenues but will, at the same time, result in Aircel being labelled a regional player, which will have a bearing on its market positioning and customer perception. The company has also signed intra-circle roaming deals to lease the networks of RCOM and Tata Teleservices Limited in high-growth areas where it did not have significant reach. Aggressive marketing strategies and innovative offerings have also started paying dividends, which is reflected in the company's strong monthly net subscriber growth. For instance, it registered a 2.4 per cent growth in subscribers during November 2013, the third highest in the industry and much higher than that of incumbents such as Airtel, Vodafone and Idea.

During 2014, the data segment will continue to be a key focus area. A 4G service launch in the near future could prove to be a favourable move for the company. However, it is important for Aircel to take stock of its financial position as well as address the issues at the earliest in order to survive in a market that is currently ripe for consolidation.

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