Industry experts share their views on the 4G landscape in the country, the key challenges and the future outlook...

{K2Splitter} The Indian 4G space has witnessed significant activity in the past few months. Almost all the major operators have launched their 4G services in select circles and the remaining are likely to follow suit in the coming months. Although the initial adoption has been slow owing to the lack of a developed device ecosystem, operators are adopting various strategies to increase uptake. These include keeping 4G tariffs at par with 3G tariffs, making 4G SIMs available before service launch and offering relevant digital content. Industry experts share their views on the 4G landscape in the country, the key challenges and the future outlook...

How has the 4G ecosystem evolved in the country? What are the key growth drivers?

#### Murtuza Onali Kachwala

The continuous growth in data traffic across India and the need for mobility-enabled services make it imperative to have a 4G ecosystem. Further, the evolution of mobile banking and e-commerce signify the fact that more and more people are going to need high speed internet on the move to perform their daily chores. Reliable and affordable internet made accessible on the go – on the roads, at railway stations and airports – will propel the growth of 4G in the country.

# **Inderpreet Kaur**

A few years back, the prime concern with regard to the 4G ecosystem was the inadequate availability of relevant devices such as smartphones, Mi-Fis and dongles at the right price. However, today, and even in the future, the key challenge is to develop and support an ecosystem built around integrated content and value-added services, which can deliver value to customers, thereby driving 4G adoption. For vendors, long term evolution (LTE) penetration in some of their key Asian markets has already reached 50-60 per cent, and they would not like to miss the scaling opportunities offered by growing markets like India. In the past few quarters, around a quarter of the smartphones launched in the mid- to high-price range were LTE enabled.

### **Nitin Soni**

The 4G ecosystem has been developing slowly in India. The lack of cheap smartphones and operator investments in 4G technology have prevented faster adoption of the service in the country. Most Indian telecom operators have stretched balance sheets and have experienced slow adoption of 3G services with the majority of data users still using 2G. We therefore expect 4G adoption in the country to be gradual. We believe that the availability of cheaper smartphones, local language smartphone applications and larger investments in 4G services by operators will gradually drive 4G adoption. The launch of 4G services by Reliance Jio Infocomm

Limited (RJIL) in the second half of 2016 could also accelerate 4G adoption.

### **Vodafone spokesperson**

The lack of availability of affordable 4G-enabled handsets is limiting the uptake of 4G services in the country. Only 4-5 per cent of Vodafone's subscribers possess a 4G smartphone, and 32 per cent of our customers do not even have data-enabled phones. Moreover, operators worldwide are using different spectrum bands for offering 4G services. This has inhibited the development of a uniform 4G ecosystem. For instance, the iPhone 5 smartphone offers 4G connectivity in the US, but not in India.

What are the various strategies being adopted by operators to initiate or enhance 4G uptake?

#### Murtuza Onali Kachwala

Free Wi-Fi zones with high speed internet in public service areas like hospitals, stations and airports are one of the many strategies being adopted to provide users with an experience they would like to carry back. Further, heavily customised yet dynamic pricing mechanisms based on the amount of data consumed, speed, duration, etc. are being devised. These are based on customer segmentation studies.

### **Inderpreet Kaur**

At present, operators are focusing on attracting subscribers with free 4G SIMs. On the pricing side, most operators are marketing 4G at 3G prices to encourage existing 3G subscribers to try out 4G. In addition, operators have introduced a wide range of plans with varying data allowances to target low-value prepaid subscribers. They are also offering integrated service plans, bundling voice, SMS, data and over-the-top services for heavy data users.

#### Nitin Soni

Telecom operators are likely to offer 4G data services at similar price points as 3G to allow faster 4G adoption. We also believe that RJIL's entry into the market will see most operators stepping up their marketing spend on 4G services. Operators will offer promotional schemes and incentives to customers to adopt 4G services.

#### **Vodafone spokesperson**

We want customers to differentiate our 4G services from those of other operators. To this end, we are focusing on offering the right combination of pricing and speed to our customers.

What are the key challenges faced by operators in the 4G space? What will be the main differentiators that will help them survive and flourish in the competitive 4G market?

#### Murtuza Onali Kachwala

Reliability, network availability and pricing will be the key challenges as well as differentiating factors for operators offering these services.

# **Inderpreet Kaur**

To drive initial adoption, operators will have to be implement effective marketing strategies and ensure device availability. Indian operators have partially addressed the pricing factor by offering 4G at 3G rates; however, 4G is not sold as a part of low-end integrated service plans. Marketing messages have to be effective in terms of communicating the speed advantages of 4G over 3G in a way that is understood by consumers. On the device side, while India is now comparatively mature with 4G devices available at 3G price points, persuading existing data subscribers using 3G-enabled smartphones to buy a new 4G-enabled handset is a challenge. Operator-backed device trade-in options could be an effective strategy to overcome this

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challenge.

#### Nitin Soni

As per Fitch, the key challenges faced by operators in the 4G space include lower-than-required investments in 4G networks and lack of cheaper smartphones. Operators need to continually invest in 4G services to support growth and avoid network congestion as 4G uptake increases.

We believe that only the top four operators – Bharti Airtel (Bharti, BBB-/ Stable), Vodafone, Idea Cellular and Reliance Communications (RCOM), (BB-/Stable) – and new entrant RJIL will be able to compete in the 4G market. An ability to invest in 4G networks and required spectrum assets will be the key to providing seamless 4G data services. RJIL has acquired access to 800 MHz/850 MHz spectrum post its spectrum sharing arrangement with RCOM. This, along with its ownership of 1800 MHz and 2300 MHz spectrum, will enable it to provide pan-Indian 4G services. Incumbents including Bharti, Idea and Vodafone will seek to acquire spectrum to launch 4G services from smaller and weaker operators.

# Vodafone spokesperson

The Indian telecom market is not yet ready for 4G. We will launch 4G services throughout the country only when there is enough demand. The slow uptake of 4G-enabled handsets is the key challenge faced by operators in the 4G space. Vodafone is currently looking at four growth areas – enterprise, data, payment services and voice in rural areas.

How will the recent 4G launches impact 3G uptake in the country?

### Murtuza Onali Kachwala

Most of the smart devices being used by consumers today are LTE/4G enabled. Hence, it is safe to assume that the younger generation, and working and business communities will

upgrade to 4G quite fast, provided the pricing is not very high. Enterprises will also leverage the high speed network for conducting day-to-day business. Further, 3G roll-outs in the country are midway and service providers have started thinking about moving on to 4G.

# **Inderpreet Kaur**

As seen in China, as well as with Warid Telecom in Pakistan, Indian subscribers could migrate directly to 4G from 2G, missing 3G altogether. However, 4G network coverage is far behind 3G at present and 3G is still better placed in terms of offering a more consistent service experience.

# **Vodafone spokesperson**

Of our total subscribers, 30 per cent do not possess a mobile data-enabled handset. We believe that in the future we will continue to have a portfolio of services, because these people will start accessing data on 2G networks and then upgrade slowly. The process is, however, likely to take years. Going forward, the need to upgrade feature phones to smartphones will govern the uptake of data services.

During the upcoming auction, which spectrum bands are expected to see high demand from operators looking to strengthen their 4G portfolio? What is your view regarding the demand for spectrum in the 700 MHz band?

#### Murtuza Onali Kachwala

The 700 MHz, 900 MHz and 1800 MHz bands are likely to have the highest level of demand. The 900 MHz band is an efficient band for transmission and last mile connectivity. The 1800 MHz band can be used for both 2G and 4G services. The 700 MHz band, being a superior frequency of spectrum, can address the challenges related to network quality. However, the base price set by the regulator for the 700 MHz band is four times that of the 1800 MHz band, which will put huge pressure on the already debt-laden service providers.

# **Inderpreet Kaur**

In the upcoming auction, looking at the block size of frequencies offered in various bands, 700 MHz is expected to see higher demand from a 4G perspective. However, the value that 700 MHz spectrum can bring would vary for different operators depending on their existing spectrum portfolio. For example, a player like RJIL with pan-Indian 4G spectrum would evaluate its choices differently from a smaller player like Telenor that does not own any 4G spectrum at present.

#### **Nitin Soni**

We believe that Indian operators have limited head room to bid for additional spectrum in the upcoming auction. Nevertheless, operators could bid for lower bandwidth spectrum for coverage purposes and higher bandwidth spectrum to enhance capacity. They will likely bid only in those circles where they do not own 4G spectrum already. We believe that the Telecom Regulatory Authority of India's (TRAI) recommended reserve price of Rs 115 billion per MHz for pan-Indian 700 MHz spectrum is high. The efficiency gains from deploying 4G services in the 700 MHz band will be insufficient to offset the relatively high price. The reserve price is about 2 times, 3.4 times and 4 times that of the recommended reserve price for 800 MHz, 900 MHz and 1800 MHz spectrum respectively. As such, the price for 700 MHz spectrum could exert further pressure on participating operators' balance sheets and cash flow, and limit their ability to invest in capex over the medium term.

The top four operators may hesitate to bid for 700 MHz spectrum given their stretched balance sheets and the need to preserve finances owing to the impending competition following the entry of RJIL (a part of Reliance Industries [BBB-/Stable]) in March-April 2016. The funds from operations-adjusted net leverage of these operators range from 2.0x (Bharti Airtel) to 5.0x (RCOM).

In sum, the auction of 700 MHz spectrum may not be attractive for operators given the limited availability of 4G-enabled devices and the fact that operators possess alternative spectrum (850 MHz/1800 MHz/2300 MHz) to roll out 4G services. For example, market leader Bharti Airtel offers 4G services in the 1800 MHz and 2300 MHz spectrum bands. Meanwhile, RJIL has access to pan-Indian 800 MHz/850 MHz spectrum.

# Vodafone spokesperson

While TRAI has recommended the sale of a large amount of spectrum across seven frequency bands, including the 700 MHz band, the proposed reserve price of 700 MHz spectrum is extremely high.

What is your outlook for 4G services for the next two years? How are these likely to help operators drive business growth and profitability?

#### Murtuza Onali Kachwala

Affordable high speed internet demand will be on the rise with more and more devices getting connected for personal and business needs. Meanwhile, research for even faster connectivity will continue.

# **Inderpreet Kaur**

It is still some time before 4G gains a reportable share in the Indian market. Ovum expects 4G to start gaining scale by mid-2018. Normally advanced technology is associated with higher ARPUs, so we expect 4G to uplift mobile data ARPUs.

### **Nitin Soni**

Fitch Ratings has a negative outlook for Indian telecom services for 2016. We expect the credit profiles of the top four operators to come under pressure amidst tougher competition, larger capex requirements and debt-funded mergers and acquisitions in 2016. Moreover, competition is likely to intensify as RJIL enters the market with likely cheaper and faster data-focused tariff plans, armed with sufficient spectrum and access to funds.

Industry revenue is likely to grow by 2-3 per cent in 2016 as compared to 9 per cent in 2015, and will be driven solely by data services with the voice segment maturing and subscriber growth slowing down. Meanwhile, the contribution of data services in operator revenues would rise to 25-27 per cent in 2016 compared to 18-20 per cent in 2015, owing to the doubling of data traffic, increased availability of cheaper smartphones and lower data tariffs. The contribution of 4G would, however, still be low in the next two to three years as most consumers will still be using 2G and 3G services. Meanwhile, the top operators' average operating earnings before the interest, taxes, depreciation, amortisation and rent margin would narrow down by 100-200 basis points due to the pricing pressure on data services and greater marketing spend as competition in data rises.

We expect blended monthly ARPUs to fall by 5-6 per cent from Rs 170 in 2015 to around Rs 160 in 2016 due to a decline in data tariffs. Data tariffs are expected to drop by 15-20 per cent as incumbents compete with RJIL. The fall in data tariffs will reduce the benefits from the rise in data usage.

# Vodafone spokesperson

We expect 4G to succeed mainly in the metro cities where there is a high probability of users upgrading to 4G as they have already been using data services. That is why we are launching 4G services selectively and not nationally. We are initially looking at launching these services in the top four or five cities, which account for around 50 per cent of our total data market in the country. Initially, 4G will be rolled out in big cities as was done two or three years ago with 3G roll-outs. Vodafone has global experience and a better understanding of the deployment of 4G networks. We believe 4G deployments need wider coverage, a strong backhaul and potential users, which we believe we have.

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