

For a company that has managed to steer its way through many ups and downs in its eight years of operations in the country, Telenor India is struggling hard to survive the ongoing industry transformation. The growing competition and the industry's ongoing shift towards data are taking a toll on the Norway-based company's Indian arm.

Telenor India's "Sabse Sasta" strategy, which had helped it win several million users by offering cheap voice services in the past, is not helping much now. Although the company features amongst the key players in its circles of operations, it mostly has low-ARPU subscribers, who are not enough to support long-term business growth. Further, with the rising popularity of 3G/4G services, most of its subscribers are expected to turn to other operators such as Bharti Airtel, Vodafone India and Idea Cellular, which are enhancing their broadband coverage at a rapid pace. Telenor India, with its limited spectrum holding and restricted geographical reach, has thus been pushed to a corner.

In such a scenario, strengthening its spectrum portfolio by either buying airwaves in auctions or through sharing and trading seems to be a logical step. However, the exorbitant reserve price set by the government is a major dampener for the operator, to the extent that its top management is speculating a complete exit from India if the company fails to procure spectrum at a reasonable price. According to the GSMA, the Telecom Regulatory Authority of India-recommended base price amounts to more than 20 times the annual free cash flow of the entire mobile industry in India.

Telenor recently wrote off Rs 18.79 billion as impairment, indicating that some of the investments it had made in India are not expected to see returns.

Strong track record, but tough going

Unfortunately, the pieces of the puzzle are no longer falling into place for the operator, which had managed to hold its own even after the licence cancellation blow in 2012. While peers such as Etisalat and S Tel were compelled to make an exit at the time, Telenor managed to achieve business growth even after downsizing operations. It managed to turn cash flow positive during 2013 in its six circles of operations.

Telenor India's consistent focus on delivering basic voice services at the lowest price and aggressive distribution helped it become the fourth largest operator in the market in three years, with a subscriber share of 12 per cent and a revenue share of 6.4 per cent.

The situation, however, has undergone a drastic change during the past year. Telenor India's revenue growth has reduced sharply, from more than 30 per cent during 2014 to 6-7 per cent during 2015, mainly on account of declining ARPUs. During the quarter ended March 2016, its ARPU stood at Rs 90, which is far lower than the ARPUs of Rs 194 and Rs 179 achieved by Bharti Airtel and Idea Cellular respectively.

Capacity issues owing to limited spectrum holdings have had serious ramifications for Telenor's revenue growth. The company currently accounts for just 5 per cent of the total spectrum held by telecom operators. Further, the lack of 3G/4G spectrum is keeping Telenor from leveraging the ongoing data revolution in the country.

During the quarter ended March 2016, the company widened its operating loss to NOK 3,100 million from NOK 159 million in the quarter ended March 2015. Its overall India revenue, however, grew to NOK 1,520 million from NOK 1,383 million during the same period.

Future course of action

Telenor India is open to acquiring spectrum, particularly in the 700 MHz band, in the upcoming auctions, provided the government reconsiders its reserve price. As this looks unlikely at the moment, the company is also exploring alternatives such as merging its operations or selling/trading its airwaves.

Of late, the Indian telecom industry has been witnessing a wave of consolidation. The growing spectrum portfolio and increasing 4G reach of players such as Bharti Airtel and Vodafone India, coupled with the imminent entry of Reliance Jio Infocomm Limited, signals a bleak future for smaller players, which are thus left with no option but to curtail operations or rely on mergers or spectrum sharing and trading pacts to survive. Recent deals like the three-way merger of Reliance Communications, Sistema Shyam TeleServices Limited (SSTL) and Aircel, and

Videocon and Aircel selling their 4G airwaves to Bharti Airtel have lent a new lease of life to smaller players while bringing in synergies and business opportunities.

Not surprisingly, Telenor India, like its peers SSTL, Aircel and Videocon, is contemplating similar options to ensure a viable business case for its operations in India. The company, however, has not been as fortunate as its peers in this space. While players such as MTS India, Videocon and Aircel have managed to find buyers, Telenor's search for a prospective suitor is still on. It has already made two failed attempts at merging operations with Tata Teleservices Limited and Bharti Airtel. Recently, Idea Cellular was reported to be in talks for a likely buyout of Telenor's Indian business.

Given the company's strong track record, Telenor brings several positive propositions to the table. It offers voice services on the 1800 MHz band, which has of late been utilised for offering 4G services by all key players in India. Further, the company has reportedly made significant investments in its networks over time and is reported to have invested around \$3 billion in its India operations.

During the quarter ended March 2016, the company's capital expenditure almost quadrupled to NOK 409 million from NOK 109 million a year ago. This was mainly on account of the network modernisation initiated in July-September 2015, which continued in the quarter to March 2016. Its earnings before interest, taxes, depreciation and amortisation (EBITDA) too improved during the quarter on account of revenue growth and positive outcomes from its ongoing network modernisation programme, including the one-off positive impact of NOK 26 million related to settlements with various vendors.

The way forward

Given the opportunities presented by the Indian telecom market, continuing its operations in the country would be the obvious choice for Telenor. The company has stated that its long-term presence here is dependent on its ability to secure additional spectrum, which, in turn, is highly dependent on whether or not the prices in the forthcoming auctions are justified. To this end, the operator has written to the Department of Telecommunications to reduce the reserve price as well as allow a liberal payment policy.

Telenor India had also started offering narrow-band 4G services in several cities, including Varanasi and Visakhapatnam, under a pilot service. The company plans to offer 4G services at the lowest tariff in India, a strategy that may not see the light of day if the operator fails to acquire spectrum during the auctions planned in July 2016.

Net, net, the company will have to procure 3G/4G spectrum to make a viable business case for its Indian operations. Telenor has stated that while it needs more spectrum, it will acquire it only if the returns are commensurate. Its other option is to find a buyer and exit the Indian market. However, with several mergers and spectrum trading deals already finalised over the past few months, the market's appetite for more such deals is yet to be gauged.

The next few months are going to be critical for Telenor as it decides on its future path in the Indian market.

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