

***tele.net organised a conference, "Road Ahead for Indian Telecom", which included the participation of leading industry players and experts. The following section on Analyst Crystal Ball brings forward the views of Kunal Bajaj, Managing Director, BDA Connect, Shubham Majumder, Regional Head, Telecoms Research, Asia Pacific, Macquarie Securities, Manoj Menon, Managing Director and Partner, Frost & Sullivan and Romal V. Shetty, Executive Director, Advisory Services and Head, National Telecom Practice, KPMG India..***

At the conference, a panel of industry experts discussed key questions relating to the ongoing tariff war, the entry of new players and the likely impact on incumbents, 3G spectrum licensing and auctions, and the road ahead. The key points that emerged from the discussion are as follows...

The new players in the Indian telecom space are playing the price card to garner market share in this already saturated space. TATA DOCOMO, which introduced the pay-per-second tariff plan that precipitated the current tariff war, is likely to break even in terms of its EBITDA margins within a year of its launch. This implies that the pay per second schemes are not entirely unsustainable and there is room for new entrants like Etisalat or Uninor to slash tariffs further, even though this does not augur well for the industry from a medium-term sustainability perspective.

Capital will determine the duration of the price war. With several operators still in the process of rolling out services, it is expected that the next 12 months will witness several launches on a circle-to-circle basis as there are four or five new players waiting to deliver mobile services. Most of them will be funded by big international players with deep pockets, particularly NTT DOCOMO and Etisalat. Therefore, it is unlikely that these new players will face any constraints with respect to funding.

The arrival of the new players may also lead to a decline in average revenue per user (ARPU) to Rs 100-Rs 120. The blended average revenues per minute (ARPM) for operators such as Bharti Airtel, Reliance Communications and Idea Cellular may reduce to Re 0.40-Re 0.42, assuming that termination charges stay at the current levels of Re 0.20.

The other impact may be further consolidation in the industry. Operators will focus their

attention on the value-added services (VAS) segment in an attempt to maintain their revenue levels and EBITDA margins. Of the 12 operators present in the market today, only six-seven operators will be able to stay on and maintain their profitability.

Overall, absolute revenues will decline to give a flattish trend line. This is because the reported subscriber additions take into account SIM card additions, and the extent of dual- or triple-SIM usage has been increasing. Also, ARPM declines will not be offset by the growth in the minutes of usage currently being witnessed. All in all, it is expected that over the next two years, absolute profits of the industry will reduce by 20-25 per cent. But telecom will continue to remain a viable and attractive market in the long term.

### **The road ahead for 3G**

A segment of high-ARPU customers is expected to move to 3G when it is launched in addition to services like mobile number portability (MNP). However, the majority of the market still prefers vanilla voice services. For any operator, the four key elements are branding, network quality, customer service and differentiated product offerings. With respect to the first two, Indian operators are amongst the best in the world. However, they are clearly found lacking in customer service initiatives.

One way of overcoming this is by improving VAS offerings. However, the drive for developing strong content is lacking.

3G seems to be the answer. However, the licensing and auction processes for this need to be simplified before its full potential can be tapped.

While private operators can leverage 3G spectrum to enhance services, it may impact the survival of new entrants. However, the 2G market will continue to do well for the next five to seven years. Therefore, operators aiming at a market share of about 8 per cent can serve their business by remaining pure-play 2G operators.

Besides TATA DOCOMO, there will be few players interested in investing \$1 billion-\$1.5 billion

for 3G spectrum, in addition to the incremental capital expenditures they will incur to build the requisite network. New players may, however, participate in 3G spectrum auctions for Category B or C circles, in case it adds some value to them. Moreover, 3G spectrum allocations are likely to take place in the future as well, giving them another chance.

## **MNP and other issues**

New players can leverage the MNP tool to acquire high-end customers (ARPU's upward of Rs 400 or Rs 500). However, the impact will be short-lived as churn rates will increase.

In the next five years, the top three players are expected to corner 70-75 per cent market share. The market will be restricted to about six to seven operators. The new entrants with international partners and governmental support will stay in the game. Apart from a high degree of consolidation, the market is also likely to witness greater fragmentation.

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