The year 2010 was an eventful one for India's booming telecom industry. {K2Splitter}

The year 2010 was an eventful one for India's booming telecom industry. More than 745 subscribers came under the mobile net, making India the fastest growing telecom market in the world. Through the year, the industry was in the news – if it was not Bharti Airtel acquiring Zain Telecom's African operations, it was telecom operators making outrageously high bids for 3G and broadband wireless access spectrum.

The closing months of the year, however, saw the mobile sector make headlines for all the wrong reasons. The 2G spectrum scam stirred up a hornets' nest, leading eventually to the exit of then minister for communications and IT, A. Raja, and opening up the sector to controversy. From leaked recordings of lobbyist Niira Radia's telephone calls compromising leading industrialists, politicians and journalists, to a bitter dispute between dual-technology and GSM operators over spectrum hoarding, 2010 ended on a tumultuous note for the Indian telecom industry.

Performance-wise, however, the sector grew at a rapid clip, driven largely by the wireless segment. In fact, given the current rate of growth, global consultancy firm PricewaterhouseCoopers predicts the mobile subscriber base to cross 1 billion by 2014.

For the present, the mobile segment continues to offer a wide range of opportunities to service providers, vendors and associated players. With 3G spectrum auctions packed and done, and with some operators like Tata Teleservices Limited (TTSL) and Reliance Communications (RCOM) already having launched 3G services, the potential of the sector has in fact, increased significantly. The introduction of 3G services, which will provide data speeds of up to 21 Mbps, mobile TV, high definition video content, multimedia gaming, video calling and conferencing on mobile handsets, has the potential to modify user habits.

But while the boom in the mobile segment is expected to continue for the next three to five years, driven by high subscriber additions in rural and non-urban areas, the wireline segment, in contrast, has been losing subscribers. Wireline operators, especially Bharat Sanchar Nigam Limited (BSNL) and Mahanagar Telephone Nigam Limited (MTNL), have been making efforts to reverse this trend by clubbing broadband with fixed line services. However, it remains to be seen if this is enough to turn the tide.

Overall, the sector is characterised by heightened competition, some consolidation, rising customer demand based on falling tariffs and increased options, and the introduction of new technologies.

tele.net takes a look at the highlights of 2010 across various segments...

Wireline services

The Indian telecom sector has witnessed phenomenal growth in the past one year. The industry has crossed several key milestones. For one, the overall subscriber base crossed the 700 million mark and three private operators – Bharti Airtel, RCOM and Vodafone Essar – pushed past the 100 million subscriber mark. However, much of this growth was driven by the wireless segment while the fixed line segment failed to get onto the growth bandwagon. As of October 2010, the fixed line segment accounted for a meagre 4.7 per cent share of the overall subscriber base.

In the past year, this segment continued to witness a decline in subscriber numbers. As of October 2010, the wireline subscriber base stood at 35.43 million, against 37.25 million in October 2009, registering a decline of 4.8 per cent. Wireline teledensity too declined from 3.16 per cent in December 2009 to 2.98 per cent in October 2010. The trend was similar for both urban and rural areas. While the urban wireline subscriber base declined from 27.11 million in December 2009 to 26.44 million in September 2010, the rural subscriber base remained more or less stagnant at 9.13 million.

Till 2006-07, the fixed line segment was following an upward trajectory with the subscriber base growing from 5.81 million in 1991-92 to 40.8 million in 2006-07. However, with mobile tariffs dropping and handsets becoming more affordable, fixed line additions began to slow down. In the past four years, the wireline subscriber base has fallen by 12 per cent, from 40.3 million in December 2006 to 35.43 million in October 2010. Despite several damage control measures taken by incumbent operators like BSNL and MTNL, for which fixed line was the mainstay business, the segment did not revive.

There are currently seven fixed line operators in the country, with BSNL and MTNL dominating the segment with over 80 per cent market share. BSNL, which has pan-Indian wireline coverage, leads with a subscriber market share of 73.51 per cent as of October 2010. It is followed closely by MTNL and Bharti Airtel, which account for 9.8 per cent and 9.12 per cent share respectively.

Though it has been almost 10 years since the fixed line segment was opened up for private operators, the progress has been far below expectations. Five private operators – Tata Teleservices Limited (TTSL), Bharti Airtel, RCOM, Himachal Futuristic Communications Limited and Sistema Shyama TeleServices Limited (SSTL) – which forayed into the wireline segment in 2001, together accounted for a subscriber base of only 5.91 million as of October 2010.

While the wireline segment is not high on the priority list of private operators, state-owned companies like MTNL and BSNL have taken several initiatives to arrest the dwindling fixed line subscriber base. BSNL recently slashed fixed line national long distance call charges across the country. With effect from December 2010, the charges for local and STD calls will be the same. Moreover, in a bid to encourage corporate India to increase landline usage, BSNL is looking to launch an ad blitz highlighting the pricing benefits, better voice quality and absence of call drops of fixed line phones. MTNL has also launched a number of add-on packs to attract customers in Mumbai. To boost its corporate fixed line services, MTNL has launched India's first number retention facility for its customers in Mumbai, which allows them to retain their numbers even if they move office or residence in the same circle.

There are several issues like right of way, absence of local loop unbundling and higher costs hampering the growth of the wireline segment. Due to this, most telecom players have concentrated on the wireless space, leading to low competition in the wireline segment. However, the potential for wireline services remains large due to the low level of penetration at present and the ability of wireline to deliver broadband at lower operating costs than wireless broadband. The quality and speed of broadband through wireline are also far superior to those of wireless broadband. In addition, the combined offering of internet/broadband that helps deliver services like IPTV, the wireline sector has the potential to bounce back.

Wireless

For most of 2010, the mobile sector grew at a phenomenal pace. It has aggressively added more than 15 million subscribers a month, making the Indian telecom market the fastest

growing one. The overall subscriber base crossed 700 million in 2010. The year also witnessed two more telecom companies, Vodafone Essar and RCOM, crossing the 100 million subscriber mark after Bharti Airtel, which was the first Indian operator to achieve the landmark in 2009.

The total wireless (GSM and CDMA) subscriber base increased from 525 million at the end of December 2009 to 745 million at the end of December 2010, showing a growth of 42 per cent. The wireless teledensity increased from 44.72 per cent in December 2009 to over 60 per cent in December 2010.

Rural wireless subscriber numbers also increased to 227.08 million in September 2010. The rural subscriber base grew at the rate of 8.3 per cent during the quarter ended September 2010 while the urban subscriber base grew at a rate of 8.16 per cent. The share of rural wireless subscriptions increased to 33.02 per cent of the total wireless subscription as of September 2010.

GSM services continued to dominate the market with a subscriber base of over 525 million in December 2010, accounting for over 75 per cent of all wireless subscribers. CDMA services, with a market share of 20-25 per cent, had over 200 million subscribers as of end-December 2010.

Bharti Airtel maintained its position as the largest mobile operator with a subscriber base of 152.49 million as of December 2010. Amongst the CDMA service providers, RCOM dominated with a subscriber base of 125.62 million CDMA subscribers as of December 2010.

Vodafone Essar had a subscriber base of 124.25 million, followed by BSNL with 81.38 million and TTSL with 84.23 million.

Bharti Airtel also accounted for the maximum subscriber additions with over 30 million new subscribers over the year.

Competitive landscape

The highlight of the first half of the year was the the 3G spectrum auction, which kicked off in April 2010 and concluded in late May, after 34 days and 183 rounds of heavy contesting across the 22 service areas.

The big rush for 3G spectrum had operators bid in excess of Rs 160 billion for a pan-Indian 3G licence. The high price surpassed all expectations, including those of the government, which raked in Rs 677.1 billion from the sale of 3G spectrum.

In the end, seven of the nine operators won the spectrum. Bharti Airtel, Vodafone Essar and RCOM won the coveted 20-year licences for Delhi and Mumbai. Delhi and Mumbai attracted the top bids of Rs 33.17 billion and Rs 32.47 billion respectively. Bharti Airtel, RCOM and Aircel won licences in 13 circles each, while Idea Cellular followed with 11 circles. Vodafone Essar and TTSL won nine circles each while S Tel secured three circles.

Bharti Airtel bid the highest at Rs 122.95 billion for 13 circles. It was followed by Vodafone Essar with Rs 116.17 billion for nine circles and RCOM with Rs 85.85 billion for 13 circles. TTSL bid Rs 58.64 billion for nine circles while Idea Cellular bid Rs 57.6 billion for 11 circles.

Thereafter, all operators fast-tracked their 3G rollout plans. While BSNL and MTNL already have 3G services up and running, other companies are also getting into the act.

Competition got a bit stiffer with TATA DOCOMO, TTSL's GSM arm, launching its 3G Life services during the Diwali festival period. It was the first private operator to do so, pipping Bharti Airtel and Vodafone Essar to the post.

The operator launched 3G in all the nine circles where it holds 3G spectrum. These are Karnataka, Madhya Pradesh-Chhattisgarh, Rajasthan, Gujarat, Uttar Pradesh (West), Punjab, Haryana and Maharashtra. TATA DOCOMO's introductory 3G service portfolio includes applications such as video SMS, video streaming, mobile TV, ultra high speed data transfers and route finders.

RCOM was quick to follow. It launched 3G services in Delhi, Mumbai, Kolkata and Chandigarh on December 13, 2010. Going forward, the operator intends to launch 3G services across all the 13 telecom circles in which it holds 3G licences by the end of fiscal year 2010-11. The company is targeting a national footprint through associations with other 3G licensees in the remaining nine telecom circles during the course of 2011.

Meanwhile, Bharti Airtel, Vodafone Essar, Aircel and Idea Cellular are gearing up for rolling out their 3G services. These companies plan to launch services by the end of financial year 2010-11. Aircel reportedly plans to formally launch its 3G services in early 2011 in all the 13 circles for which it has won spectrum.

Interestingly, in order to expedite the process of rolling out services, several leading operators have, or are in the process of, forming partnerships. For instance, Aircel and TTSL are reportedly negotiating a pan-Indian partnership to utilise each other's 3G airwaves. Both companies jointly have 3G frequencies in all circles except Delhi, Mumbai and Himachal Pradesh. Further, TTSL is exploring the possibility of a 3G roaming deal with BSNL, which has 3G spectrum in all circles except Delhi and Mumbai.

Similarly, Bharti Airtel, Vodafone Essar and Idea Cellular are also finalising their 3G alliances.

Prior to this, BSNL planned to invite bids from operators to share its 3G spectrum. The incumbent hoped to net between Rs 25 billion and Rs 50 billion over a period of five years by signing roaming arrangements with two private players.

Before 3G can find its feet in India, however, a few issues and concerns need to be addressed. In December 2010, the Department of Telecommunications (DoT) threw a spanner in the works by issuing notices to RCOM and TTSL, asking them to put 3G services such as video calling on hold, citing security concerns.

In its notice to the operators, DoT stated that the law enforcement agencies could not intercept video calls in real time. It added that services such as Yahoo! Messenger, Google Talk and two-way text chatting on the operators' network could not be accessed by the monitoring agencies. Thereafter, TTSL and RCOM had agreed not to offer video calling services until the issues over security concerns were resolved.

However, early January 2011 brought good news in this respect. According to reports, DoT is working with the Ministry of Home Affairs to frame rules pertaining to the interception and monitoring of 3G services. Meanwhile, operators have been given the green signal to roll out 3G-related services.

While the spectrum scam was undoubtedly the biggest development of 2010, the fate of the new telecom operators also generated a lot of interest. Currently, the licences issued in January 2008 by A. Raja, former minister of communications and IT, are being scrutinised by DoT. These operators have failed to launch services as stipulated in their licence conditions.

According to the conditions of the licence, licensees are required to roll out services in 90 per cent of the service areas in the metros and 10 per cent in the district headquarters within 12 months (52 weeks) of the date of award of the licence.

Some of the new operators, including SSTL, Uninor, Loop Telecom and Etisalat DB, which have failed to meet the rollout obligations, have paid between Rs 99 million and Rs 110 million as penalty to DoT.

Recently, DoT took a more aggressive step with regard to this. It announced that it may soon issue show-cause notices for the cancellation of licences to companies that are likely to take more than the 104 weeks' time given to roll out services.

A few of the new operators that were granted licences in 2008 and have already missed the first 52-week deadline are now approaching the second 52-week deadline. In cases where show-cause notices are issued for the cancellation of licences, operators would be given 60 days' time to respond to the notices before DoT takes a final decision.

Controversies notwithstanding, hyper-competitive market conditions continue to prevail in the wireless segment. India currently has 14 mobile operators in contrast to other large markets like the US and Japan, which have a maximum of four to five operators. As expected, overcrowding of the market has led to cut-throat competition in the form of fierce price wars. Operators are continuously engaging in tariff cuts, which lower the average revenue per user (ARPU), though

increasing the subscriber base.

However, the currently prevailing tariffs and the resulting profit margins have proved to be unsustainable for some telecom operators.

Most operators, especially the six new entrants who won licences in 2008, have found it difficult to carry out operations profitably. Some of the new players who had entered with high hopes are now looking for bailout options, and are believed to have approached DoT to surrender their spectrum and get a fee refund.

Moreover, due to the large number of existing players, there is excessive spectrum fragmentation. The average spectrum possessed by a GSM operator at present is 5.7 MHz, which is about a third of the global average. On the other hand, inefficient operators are unnecessarily hoarding the spectrum without utilising it.

Infrastructure sharing

To cope with the exponential growth in subscriber numbers, service providers are increasingly opting for infrastructure sharing. In the backdrop of falling tariffs and low ARPUs, infrastructure sharing helps in reducing costs and expedites network rollouts.

The six new entrants also took the infrastructure sharing route in 2009 to roll out services. They tied up with either incumbent operators or independent infrastructure companies to facilitate faster rollout at a reduced capex.

There were also some key infrastructure sharing tie-ups, which included RCOM entering into a 10-year agreement with S Tel for sharing towers, transmission lines and fibre backbone. BSNL also shed its earlier reluctance and signed up tower sharing contracts spanning 10 years with companies such as Videocon Telecom Limited, SSTL, TTSL and Aircel.

Consolidation in the tower sector has become imperative. For the telecom tower industry, at least two to three tenants per tower are necessary in order to become profitable. Capitalising on the strong demand for towers, many stand-alone tower companies entered the market. Meanwhile, a compelling opportunity in tower leasing prompted major operators, including Bharti Airtel, RCOM and TTSL, to hive off their tower assets into separate subsidiaries.

Some of the bigger tower consolidation deals in 2009-10 include TTSL hiving off its tower business Wireless-TT Info-Services Limited (WTTIL) in a unique reverse swap deal with independent tower company Quippo Telecom Infrastructure Limited (QTIL).

In August 2010, the QTIL-WTTIL venture (now known as Viom Networks) sold 11 per cent stake to Macquarie SBI Infrastructure Fund for Rs 14.2 billion. The year 2009-10 also saw the American Tower Corporation (ATC) acquire Xcel Telecom's tower business for Rs 7.5 billion. In October 2009, ATC took over Transcend Infrastructure for Rs 1 billion. Likewise, GTL Infrastructure bought Aircel Telecom's tower business for Rs 8.5 billion.

Internet and broadband services

In a country of over 1 billion people and more than 700 million telecom users, the internet penetration still stands at less than 1 per cent. Though the government had set a target of 20 million broadband subscribers by 2010, the industry missed it by almost 50 per cent, with the internet and broadband subscriber base standing at over 17 million as of October 2010.

Some of the key impediments to growth have been inadequate wireline infrastructure, complicated procedures and charges for right of way, high cost of laying optic fibre cables and customer premises equipment, and low last mile connectivity. However, following the allocation of broadband wireless access (BWA) licences by the government, many of these issues are expected to get resolved.

The BWA licence auction was held in June 2010. Infotel was the only company to win BWA spectrum for all 22 telecom circles while five other companies – Qualcomm, Bharti Airtel, Aircel, Tikona Digital and Augere – won licences in different circles of the country.

The spectrum auctions are likely to give an impetus to the sector and help increase internet penetration. Broadband, particularly, will help connect remote, rural areas of the country that have so far remained unconnected due to infrastructure hurdles. Also, with the urban teledensity crossing 100 per cent and the voice market maturing, the internet and broadband segment can, with proper nurturing, become a key demand driver for the telecom industry.

Even though India's internet and broadband penetration figures remained among the lowest in the world in 2010, there are signs of the sector picking up. The internet subscriber base experienced significant growth over the year, rising from 14.63 million in September 2009 to 17.9 million in September 2010, an increase of 22.35 per cent. The share of broadband in the overall internet usage also went up from 49.3 per cent in September 2009 to 57.6 per cent in September 2010. The number of broadband subscribers increased from 7.21 million in September 2009 to 10.31 million in September 2010, marking an increase of 43 per cent.

Another trend that caught on in the past few years is accessing the internet on mobile handsets. The year 2010 witnessed a steep increase in internet usage on wireless devices, with more than 274 million users accessing the internet on their wireless devices as of September 2010. The usage went up by more than 100 per cent during the period September 2009 to September 2010.

The growth in internet usage, though still low compared to global figures, has been triggered by factors like the growing popularity of the internet and broadband amongst the urban population, an increase in comfort with the usage of internet applications, the rising level of literacy, the continuous fall in the prices of computers and laptops, and the decreasing costs of internet/broadband access plans. The easy and affordable availability of smartphones has also led to increased internet access from mobile phones.

In terms of subscriber market share, BSNL held the lion's share at 56.84 per cent with 10.17 million internet subscribers as of September 2010. BSNL was followed by MTNL with 2.36 million subscribers. The company provides internet services in the lucrative Mumbai and Delhi circles. These two state operators clearly dominated the segment with a total share of close to 70 per cent. Amongst the private operators, RCOM and Bharti Airtel had 1.82 and 1.38 million subscribers respectively, together accounting for 17.94 per cent of the total internet subscriber base.

Technology-wise, DSL proved to be the preferred brand, accounting for 50.5 per cent of the

total internet subscribers. Dial-up connections and wireless followed with a market share of 31.04 per cent and 10.32 per cent respectively.

Taking notice of the fact that India's broadband penetration is a mere 0.8 per cent, the Telecom Regulatory Authority of India (TRAI) recently brought out the National Broadband Plan to encourage growth in the sector. TRAI has set ambitious future targets for the sector, targeting 75 million broadband connections by 2012 and 160 million by 2014; as of end-October 2010, the number of broadband connections stood at 10.5 million.

TRAI has also recommended an investment of $6 billion to establish a national broadband network for faster internet connectivity. The network will be established in two phases, starting with all cities, urban areas and village panchayats and then moving on to cover habitations with a population of over 500 by 2013. The network is likely to be financed from the Universal Service Obligation Fund, along with loans given or guaranteed by the government.

To make the broadband service affordable, TRAI plans to review the duties levied on inputs and finished products used in providing broadband and internet services. Among other recommendations, it has proposed to set up national- and state-level optic fibre agencies to establish robust networks.

However, there are a few issues that could hinder the growth of wireless broadband in the country. One is the dilemma faced by operators over choosing the right/correct technology platform. Operators have yet to decide whether to adopt Wi-Max, which is readily available for use, or wait for long term evolution (LTE) technology that is still at trial stages.

A major deciding factor for the success of wireless broadband will be the cost and availability of user end-devices. Operators and device makers though, are consciously trying to bring down prices. Infotel Broadband, for example, is planning to launch internet-enabled devices at prices as low as Rs 8,000. Clearly, the launch of BWA will give the internet and broadband segment the required boost.

Long distance services

The long distance segment in India has witnessed significant growth in the past few years. Following the opening up of the sector to private participation in 2000 (national long distance [NLD]) and 2002 (international long distance [ILD]), several telecom operators and enterprise companies joined the fray.

Currently, there are 19 long distance licence holders in the country, including independent companies like Powergrid, RailTel, Sify, AT&T, Cable & Wireless, SingTel, Verizon, Orange Business Services (France Telecom) and Tulip Telecom apart from telecom service providers like Bharti Airtel, BSNL, RCOM, and others.

In 2010, the leading players in the NLD space were Bharti Airtel, BSNL and RCOM. Bharti Airtel led in terms of revenue market share in both the NLD and ILD segments. In the NLD segment, Bharti registered a revenue of Rs 48.06 billion for the period January-September 2010. RCOM, BSNL and Vodafone Essar followed with revenues of Rs 30.94 billion, Rs 30.35 billion and Rs 23.59 billion respectively during the same period.

In the ILD segment, Bharti accounted for a revenue market share of 26.8 per cent and garnered revenues of Rs 17.68 billion as of September 2010. BSNL and Tata Communication followed with a market share of 12.6 per cent and 12.3 per cent respectively for the same period. Among the independent long distance service providers, Tata Communications earned the highest revenue of Rs 8.16, as of September 2010. The overall revenue earned by the ILD segment during January-September 2010 stood at Rs 65.91 billion.

While the individual consumer segment was dominated by domestic operators, it was the enterprise segment that became highly competitive with the presence of global telecom companies such as AT&T, Verizon Wireless, BT Global Communications India and Cable & Wireless. Among the international players, BT Global Telecom garnered the highest revenue of Rs 4.27 billion while Verizon and AT&T had revenue worth Rs 2.65 billion and Rs 1.99 billion respectively during the period January-September 2010. In September 2010, BT Global Telecom surrendered its NLD licence to DoT after purchasing i2i Enterprise in 2007, whose licence it now uses for its services in India.

One of the striking trends in the long distance space during the year was the lowering of tariffs by operators. Intensifying the ongoing price war in the telecom sector, state-owned operator BSNL slashed its NLD rates, offering pulse charges equivalent to local call charges for all interstate calls made using fixed line phones. The industry feels that this move could bring an

end to differential tariffs for local and long distance calling.

Private operators were also not far behind. TTSL, which has been known for its path-breaking tariff plans, gave the industry another first by lowering its NLD charges to Re 0.30 per minute. Prepaid subscribers on Tata Indicom, the CDMA arm of TTSL, were offered 600 minutes of NLD calls at Re 0.30 per minute across all networks. RCOM and TTSL also continued to offer unlimited NLD minutes to their subscribers under special tariff schemes.

In the ILD segment too, TTSL led the tariff game. It surprised the industry by bringing out a Re 0.01 per second ISD tariff plan for countries like Canada, the UK and the US. Also, for Gulf countries like the United Arab Emirates, Bahrain, Yemen, Kuwait and Saudi Arabia, the company slashed call charges to Re 0.12 per second.

It is not just the outgoing charges on long distance telephony that are coming down, even roaming charges in India are falling continuously. BSNL, for instance, has reduced international roaming tariffs for foreigners using its network in the country by up to 40 per cent. For foreigners visiting India, the tariff for outgoing local and NLD calls was slashed to about Rs 30 per minute from Rs 49, while international calls are charged at Rs 70 per minute from the earlier Rs 99.

Going forward, it is possible that national roaming charges may become history. DoT is planning to do away with tariffs on roaming services in India. At present, consumers pay roaming charges when they make or receive calls outside their home circle. DoT has recommended the complete removal of the circle concept. The move is likely to be opposed by service providers as roaming charges constitute up to 10 per cent of the industry's revenues. The service providers together earn $272.4 million annually from roaming charges.

In the past one year, the segment has also witnessed some important changes on the policy and regulatory fronts. In the wake of national security concerns, DoT has amended the telecom licensing rules for NLD and ILD operators. According to the new rules, service providers must have a well-outlined organisational policy on security and security management of their network. The plan should be executed in a phased manner to ensure the maintenance of the equipment locally. In case of any security breach due to the equipment installed, the operator will be fined Rs 500 million for each purchase order along with 100 per cent of the contract value.

In 2009, DoT allowed operators to sell long distance prepaid calling cards to customers. In 2010, TRAI asked mobile operators to sign agreements among themselves to allow customers of one operator to use the long distance calling cards of another, depending on the most suitable offer. The move could further bring down long distance call charges.

While the market for long distance services is getting bigger by the day, there are still some hurdles. Quality of service, and customer focus and support are still not closer to international standards. With government consent given to internet telephony, which is much cheaper than long distance calling, this segment poses a potential threat to long distance operators.

However, the potential of the market remains huge. With continuous effort on the part of operators, the entry of fresh competition, and a better-formed policy framework, the long distance market is likely to scale greater heights in the years to come.

About Us We are Hiring Contact Us

Subscribe Privacy Policy Advertise Terms & Conditions

Copyright © 2010, tele.net.in All Rights Reserved