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After three years of knocking on the Department of Telecommunications' (DoT) door for the grant of 2G spectrum for offering GSM services in the lucrative Delhi circle, Tata Teleservices Limited (TTSL) seems to be in luck now. The Telecom Disputes Settlement and Appellate Tribunal has directed DoT to release start-up GSM spectrum to TTSL for the Delhi circle on a priority basis.

This will boost TTSL's operations. The company has been waiting for spectrum allocation in 39 commercially important districts in nine telecom circles, apart from Delhi. The release of spectrum will enable the operator to extend its GSM reach to 19 circles.

TTSL, until recently, was predominantly a CDMA player, offering services under the Tata Indicom brand. In 2008, the government allowed operators to offer dual technology services under a single licence. TTSL applied for the same and was awarded pan-Indian GSM licences. In 2009, it started offering GSM services under the TATA DOCOMO brand. Tata Teleservices (Maharashtra) Limited (TTML), a listed subsidiary, also launched GSM services in the Mumbai circle and other circles in Maharashtra.

In mid-2009, in an unusually aggressive move, the otherwise reticent operator took the market by storm. It introduced game changing tariffs (pay per call and pay per second plans) and innovative offers. Following this, TTSL witnessed the highest monthly subscriber additions at nearly 4 million for the next six months. Between May 2009 and May 2010 there was a 100 per cent increase in the subscriber growth rate. Also, TTSL's market share, which had hovered between 8 per cent and 9 per cent, climbed to about 11 per cent.

In November 2010, the operator stole a march on its rivals and launched 3G services in Gujarat, Haryana, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Punjab, Rajasthan and Uttar Pradesh. Between November 2010 and March 2011, the company covered 100 towns on 3G. Today that number has jumped to 200 towns.

According to company officials, TTSL's 3G service has been receiving a positive response. As of March 2011, nearly 15 per cent of the company's data users were using 3G.

With 90.77 million subscribers as of May 2011, TTSL is the sixth largest wireless telecom operator in India, trailing Bharti airtel with 167.06 million subscribers, Reliance Communications (RCOM) with 141.16 million, Vodafone Essar with 139.42 million, Idea Cellular with 93.75 million and Bharat Sanchar Nigam Limited (BSNL) with 92.83 million users.

Market position

TTSL is a pan-Indian player, offering integrated telecom solutions under the brand names TATA Indicom, TATA DOCOMO, Tata Photon, Walky and Virgin Mobile (Virgin has exited the marketing joint venture with TTSL, but the branding agreement will continue). Its telephony services include mobile services, wireless desktop phones, public booth telephony and wireline services. It uses both the CDMA and GSM technology platforms for its wireless networks.

Currently, TTSL and TTML together operate in more than 450,000 towns and villages across the country. In November 2008, TTSL entered into an agreement with Japanese telecom major NTT DOCOMO, which picked up a 26 per cent stake in the company. This was a key step in the evolution of the company.

A relatively late entrant in the mobile segment, TTSL showed a low-risk appetite for a long while. It preferred to wait while its rivals pushed ahead to corner market share. In 2009, the company picked up steam and charged ahead of its rivals with a series of innovative offerings, value-added services (VAS) and tariff packages.

In the same year, TTSL merged its fully owned telecom tower subsidiary Wireless TT Info-Services Limited with Quippo Telecom Infrastructure Limited to form Viom Networks, one of the country's largest independent entities in this space.

In 2010, TTSL's older CDMA business also became cash positive. "All this augurs well for our balance sheet and we are happy with the way things are progressing," noted Anil Sardana,

former managing director of the company.

However, much of the past two years' aggression seems to have diluted. Industry analysts believe that TTSL is changing gears again. According to company officials, the operator's focus in the past six months has been more on consolidating operations, which is part of a broader plan to integrate all its telecom-specific businesses into a single entity, apart from rolling out 3G services and strengthening its VAS portfolio. Analysts also feel that the operator's focus is shifting from increasing its subscriber base to revenue growth.

Interestingly, there was a 22 per cent drop in subscriber additions between February 2011 and May 2011. In May 2011, for instance, while operators like Bharti airtel, RCOM and Vodafone Essar added over 2 million subscribers, TTSL added less than 0.4 million users.

A company official explains that the sharp slide in the number of users is because TTSL started registering subscriber numbers from February 2011, based on visitor location register (VLR) data, which shows the number of active subscribers on a network. While companies like Bharti airtel and Vodafone Essar have been calculating VLR data for 90 days, TTSL has been doing the same for a seven-day period. In other words, if TTSL subscribers have switched off their handsets, that is, if the number is inactive for seven days or more, they will not be counted as active users. The company official claims that there will be a significant increase in user numbers from August 2011 (by when TTSL expects to adopt the 90-day model).

3G rollout

For TTSL, as for other operators, 3G is an important revenue stream. Having paid Rs 58.6 billion for 3G licences in nine circles – Maharashtra, Gujarat, Karnataka, Kerala, Punjab, Haryana, Uttar Pradesh (West), Rajasthan and Madhya Pradesh – the company is keen to make good this investment.

In this regard, its partnership with NTT DOCOMO will be an advantage as the Japanese operator is a technology leader in the global 3G space. In addition, TTSL's infrastructure comprises next-generation networks that are 3G ready, thereby making the company better positioned to roll out these services.

Having launched 3G services before its peers, TTSL's strategy has been to first provide users a flavour of the 3G experience. Towards this end, the operator initially offered 3G services free of cost and converted its retail stores into experience centres where users could familiarise themselves with the new technology.

Following this, the company launched two 3G-specific tariff plans – small screen and large screen. While the small screen plan is aimed at users who need both 3G voice and data connectivity, the other plan is for those who intend to use 3G services to access the internet on their laptops and personal computers.

This helped to draw subscribers, especially high-data users. "We are witnessing nearly 40 per cent increase in data volumes on a month-to-month basis. And every month, the adoption rate is increasing," says Deepak Gulati, executive president, mobility business at TTSL.

Non-voice revenues are currently contributing 13 per cent to the company's total revenues.

Recently, NTT DOCOMO announced an investment of Rs 8 billion in TTSL as part of a rights issue by the Indian partner. The majority of this amount will go towards upgrading the operator's 3G network in India.

VAS

To stay ahead of the competition and to improve its ARPU, TTSL has been very active on the VAS front. Enhancing its VAS portfolio, the operator has launched the SMS Express offer, which comes bundled with a tariff plan. Under this offer, users can avail of 100 free national SMSs every day for 60 days on activating a handset with a first recharge voucher of Rs 55. The plan also offers free talktime worth Rs 29. After using the free SMSs, subscribers need to pay Re 0.50 per message and Re 0.01 per second for all national calls.

To ensure that customers stay connected while on the move, TATA DOCOMO has launched an

internet access device – the 3G Wi-Fi Hub. It offers connectivity for specific Wi-Fi devices such as laptops, tablets and gaming consoles. The device offers speeds of up to 7.2 Mbps in the 3G mode, and up to 3.1 Mbps in the high-speed internet access mode. Initially, the 3G Wi-Fi Hub is available with post-paid plans and customers opting for the device will be provided with a starter pack, containing both TATA DOCOMO 3G GSM and Tata Photon+ start-up kits. The device is available under two plans, Wi-Fi Rs 750 and Wi-Fi Rs 1,000. The Wi-Fi Rs 750 plan is available for a monthly rental of Rs 750, under which customers can avail of 2 GB of data usage. Post this, customers will be charged Re 0.50 per MB. The Wi-Fi Rs 1,000 plan is available for a monthly rental of Rs 1,000, wherein customers will get 5 GB of data usage. After exhausting the limit, customers can avail of unlimited data usage under the throttle option, wherein surfing speeds will be determined by the user location, number of people accessing the network and device configuration. The 3G Wi-Fi Hub is priced at Rs 5,999.

To tackle competition in the long distance segment, TATA DOCOMO has launched the Roam Free offer for post-paid customers. Under the plan, incoming calls on national roaming are free, while outgoing calls on roaming are charged Re 0.01 per second. Currently, this offer is available on three Roam Free plans – Roam Free 299, Roam Free 499 and Roam Free 799. Under these plans, customers can take four, seven and 12 free recharge toppings respectively. These toppings may include any combination of free local talktime minutes, free STD minutes, free local text messages, etc.

Keeping enterprise customers in mind, TTSL has diversified its product range by entering the \$2.8 billion location-based services (LBS) market. It has launched several applications on the LBS platform, including vehicle tracking services for fleet and taxi management; asset tracking services for cargo management, consignment tracking and an ATM finder; and workforce management solutions for employee safety, sales force automation and ticket allocation. While launching the new portfolio, Sukanto Aich, president, Tata Teleservices Enterprise Business, noted, “Technology has transformed the way enterprises undertake business today. The new paradigm in telecom services lies in providing location-based inputs to various business applications with a view to ensure workforce safety, enhance productivity and minimise investment risks through real-time tracking of an asset. These solutions are applicable to various industry segments and include several applications.”

Analyst view

Backed by the deep pockets and strong brand equity of the \$100 billion Tata Group, TTSL has built a credible place for itself in the Indian telecom industry.

Abhishek Chauhan, senior consultant, information and communication technologies, South Asia and Middle East at Frost & Sullivan, says that the company's key strength lies in its ability to straddle GSM and CDMA technologies successfully as well as offer a diverse product portfolio. "Besides, the Tata brand itself is a formidable name and products like the Tata Photon+ have done very well. Besides, TTSL has the backing of DOCOMO for its GSM services," he says.

Mahesh Uppal, director, ComFirst, agrees. He says, "TTSL's key strength is that it does not follow the beaten track. It has carved its own niche and led the industry with innovative and game changing tariff plans like the per second billing scheme. It has its finger on the consumer's pulse."

Nevertheless, analysts believe that TTSL would do well to improve its interface with authorities like DoT and the Telecom Regulatory Authority of India. It is perceived that TTSL's disagreements with the authorities have escalated in the past few years. Uppal says that TTSL should re-engineer its approach towards the authorities to achieve better efficacy and speedier resolution of issues.

Chauhan points out that the company will benefit from strengthening its GSM mobile business over the next few years, given the stiff competition it is likely to face. "TTSL's CDMA mobile services business might be a big challenge to retain, given that the CDMA user base is decreasing significantly. Besides, there will be increased competition on the wireless broadband front following 3G and BWA rollouts. Turning its GSM business into a success story will have to be the focus of the company going ahead," he says.

Given that the company's initial mass market approach was designed to woo CDMA users, the industry's perception is that TTSL's services and products are more for the masses than for high-end users. Uppal notes, "Even today, it may be difficult to lure high-end consumers with small price advantages. TTSL's margins are, therefore, under threat and to combat this, the company has to become more aggressive than usual."

Analysts also believe that the upgrade to 3G will take longer than expected and operators should be prepared for this. They think that in a price-sensitive market like India, premium services will not bring profits right away. "Therefore, operators need to take a long-term view of the return on investments," says Uppal.

Future outlook

Retail, VAS and 3G will continue to be the company's top focus areas going forward.

In 2010, TTSL entered into a franchise agreement with retail giant the Future Group to offer a unique retail and talking experience to its customers. It launched T24, a co-branded GSM services banner, in the same year, which is currently available in 16 telecom circles. In March 2011, this service was extended to the Mumbai circle and other circles in Maharashtra.

According to Gulati, "Going by the positive response we have received since our first circle launch, we have now set ourselves a target of achieving a subscriber base of 10 million customers in the next three years on the T24 platform."

With the VAS segment being key to the company's growth, a major thrust will be given to the rapid launch of innovative services over the next two years. Some of its VAS products are likely to be i-mode, m-wallet and i-concierge, which are popular in Japan.

To fund the heavy capex for 3G and network expansion, TTSL has borrowed Rs 5 billion from infrastructure finance company IDFC as a long-term debt. It is a six-year bullet repayment loan with a put/call option at the end of every three years. For the future, the company is looking at various options for raising both debt and equity. It is also reportedly considering part sale of its investment in Viom Networks.

In all, TTSL is a long-term player, and to ensure future growth, it is focusing on bettering its rivals' 3G offerings, adding subscribers, enhancing its services portfolio and consolidating its presence in the Indian market.

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