

The past eight months have been a testing period for Idea Cellular, the country's third largest GSM operator. {K2Splitter} The past eight months have been a testing period for Idea Cellular, the country's third largest GSM operator. The issue of intercircle roaming (ICR) agreements with the Department of Telecommunications (DoT) is yet to be addressed and the Supreme Court has ordered the cancellation of 122 2G licences awarded in 2008, of which seven are Idea-owned operating licences.

"It is unfortunate that a serious telecom operator like Idea Cellular is being made to suffer due to the cancellation of licences, despite ensuring compliance at each stage of the allocation process. The impacted service areas have over 7.2 million subscribers. These users account for a cumulative capital investment of about Rs 35 billion and 4 per cent of overall revenues," says Himanshu Kapania, managing director, Idea Cellular.

However, the operator expects the situation to improve going forward. "We are preparing to participate in a fair and transparent 1800 MHz spectrum auction while awaiting the final directive of the court and the government on our pending applications," says Kapania.

Notwithstanding the disagreements with the authorities, the financial implications of the cancelled 2G licences and a possible penalty over ICR agreements, business has to continue for Idea. With 17 years of operations in the telecom industry, 110 million users and a 16.4 per cent revenue market share, there is a lot at stake for the operator.

In 2006, the Tata Group exited Idea Cellular and the Aditya Birla Group became the sole promoter with a 46.98 per cent stake in the company. Since then, Idea's focus has been on driving growth and increasing its footprint.

Through aggressive advertising and marketing initiatives, the company has also managed to establish a strong brand recall. The "What an Idea, Sirji!", "An Idea can change your life", "Get an Idea" and other socially relevant campaigns have helped it create a distinct identity.

These efforts have ensured that Idea ranks among the country's top five telecom players. With a subscriber base of 110 million, up from 21.1 million in December 2007, Idea trails only Bharti

Airtel (with 178 million users), Reliance Communications (RCOM) (152 million) and Vodafone India (149 million).

Idea led the pack in terms of subscriber additions in February 2012, with a 34.70 per cent share in net additions, beating Bharti Airtel (24.50 per cent), RCOM (13.08 per cent), etc.

“The company’s performance has been commendable. In terms of revenue market share, it is ranked first in four circles and second in three of the 22 service areas,” says an analyst from brokerage firm Prabhudas Lilladher.

Going forward, Idea will continue to focus on building on its strong brand equity, strengthening its presence in rural and semi-urban areas, and increasing the uptake of 3G services.

3G and more

Idea Cellular won 3G spectrum in 11 circles in the 2010 auctions. It launched services in March 2011 under a major rebranding exercise.

The operator initially introduced services in four circles (Madhya Pradesh and Chhattisgarh, Gujarat, Himachal Pradesh and Haryana). Its 3G services seem to have hit the right note with customers. According to Kapania, these services are available in over 3,000 towns in 20 service areas. As of December 2011, the operator’s 3G user base stood at over 2.25 million, average usage at 235 MB per month and 3G data ARPU at Rs 79. It currently provides 3G services to 5 per cent of its customer base.

While most of its peers have focused on 3G coverage in the metros, Idea has tapped users in semi-urban and rural areas. As an extension of this approach and to increase the adoption of these services, Idea offers the cheapest 3G tariffs in India. It offers 4 GB of 3G data download for Rs 750 per month and 6 GB for Rs 850 per month. The operator has also launched 3G smartphones which offer data benefits worth Rs 3,500.

Idea has taken several steps to address the issue of high data demand. It has shifted its backhaul system from TDM microwave links to IP based. To improve backhaul capacity, the company has installed fibre-based networks at several sites. Currently, 12-15 per cent of its cell sites in the main cities where 3G services have been launched are fibre based. Idea intends to increase this to around 20 per cent by August 2012, and extend the fibre network to small towns. The operator plans to move to an all-IP domain in the next two years, at least in the top 50-60 towns. 3G repeaters are also being considered for improving the company's in-building coverage.

Currently, all 3G sites are co-located with 2G sites. Implementation of this model costs only 15-20 per cent of the investments in setting up a new site. The operator's network utilisation stands at 10-15 per cent.

MNP

Besides 3G, mobile number portability (MNP) has worked to the company's advantage. The operator claims to have registered a net gain of 2.2 million customers as of January 14, 2012, while maintaining the lowest port-out ratio. It loses 57 customers against every 100 users that port in.

Building blocks

With operations in 13 established service areas (launched before 2008-09), the company claims to have an infrastructure base comprising more than 94,000 2G and 3G base stations; over 60,000 km of fibre networks; and a network covering 4,500 cities and 260,000 villages. Idea has a 16 per cent stake in Gurgaon-based telecom infrastructure firm Indus Towers. In 2008, it acquired Spice Communications, which increased its footprint in the Indian telecom market with the latter's subscribers in the Punjab and Karnataka circles.

Financials

The company has been on a strong financial wicket. It has been registering steady growth over

the past 10 quarters. In the third quarter of 2011-12, it witnessed a sequential quarterly revenue growth of 8.8 per cent and incremental revenues of Rs 4.10 billion over the previous quarter. Between December 2010 and December 2011, the operator's sales increased by 26.9 per cent.

Its earnings before interest, taxes, depreciation and amortisation (EBITDA) for the third quarter of 2011-12 increased by 23.7 per cent over the previous quarter, driven by the strong performance in its 13 established service areas, which contribute 89 per cent of its total revenues. In these circles, the EBITDA stood at 30.4 per cent.

However, the profit after tax dropped to Rs 1,687 million from Rs 2,209 million during the period under consideration, owing to the high 3G spectrum auction fee, the declining rupee exchange rate, and investments in 3G and 2G projects.

Growth strategy

The company claims to have never chased subscriber numbers at the cost of profitability. Therefore, while other operators were investing in new markets, Idea strengthened its presence in established service areas like Gujarat, Andhra Pradesh and Kerala, before entering new circles.

“We wanted to invest in markets where we were confident about reasonable returns on investments. Also, we invested in markets that were witnessing significant growth in terms of minutes of usage (MoU),” says Kapania. The company is focusing on building scale, with 1.2 billion MoUs per day. Globally, it is the eighth largest operator in terms of traffic globally.

Idea's strategy, therefore, has been to invest in its network, technologies and processes, and in established markets. This drives its leadership in these areas. Another key growth driver is its high penetration in non-urban and rural markets.

Caught in controversy

However, as the operator was preparing for the next level of growth, it ran into several regulatory hurdles. Key among these was the Supreme Court verdict on the 2G spectrum issue, which cancelled seven operating licences owned by the company.

Idea believes the judgment to be unfair as it had applied for licences way before 2008 and, therefore, the applications should have fallen in the same category as those submitted for unified service access licences in 2004 and 2006, which were not cancelled. However, Idea's applications were delayed and not processed till 2008.

The operator filed a review petition with the Supreme Court, but the latter has rejected such petitions from all companies facing licence cancellation.

The issue of ICR agreements involving Vodafone India, Bharti Airtel and Idea Cellular, which have been deemed illegal, has also impacted the operator financially. These companies, along with Aircel and Tata Teleservices Limited, had challenged the DoT order asking them to stop offering 3G services under ICR arrangements. According to the operators, they were told that such roaming arrangements would be allowed, and, therefore, they strategically bid for the expensive 3G spectrum. The case is currently with the Telecom Disputes Settlement and Appellate Tribunal, which has passed a "no coercive action" order till the delivery of the judgment.

Meanwhile, the Idea-Spice merger case is pending in the Delhi High Court. In 2011, DoT had issued notices to Idea for holding six overlapping mobile licences after its acquisition of Spice Communications. This, according to DoT, was a violation of the merger and acquisition (M&A) norms. On February 24, 2011, the department imposed penalties of Rs 3 billion on the company, apart from withholding 3G spectrum in four circles and cancelling the overlapping 2G licences. In April 2011, the high court stayed the acquisition of Spice, which was challenged by Idea. The operator denied any breach of M&A norms and stated that the deal was approved by the court and was undertaken with the full knowledge of DoT.

"We are currently operating in a combination of tailwinds, with strong customer traction, and headwinds, emerging from the uncertain regulatory interventions and a macroeconomic environment," Kapania says.

Need for attention

According to analysts, a strong brand image and financial support, a robust infrastructure backbone and a confident go-to-market strategy are some of the operator's key strengths.

However, there are also a few areas which may pose challenges in the long run. A key concern expressed by analysts is that though the thrust on semi-urban/rural areas has been a winning strategy for Idea so far, it may not work in the long term. Rural markets have contributed about 67 per cent of its net subscriber additions in the past two years. These additions from low-income segments could put pressure on ARPUs and MoUs.

The company has followed the same strategy for its 3G service launch. So far, it has done well in this space, but industry experts point out that the operator may not be able to maintain the momentum as competition picks up. Also, they do not expect ARPUs to increase significantly in small towns as compared to the metros and Category A circles, where data usage will be higher.

On the brighter side, Idea has the first-mover advantage in this segment and if 3G truly becomes an enabler in small towns that have adequate broadband access, the company could emerge a winner.

According to Harish Bijoor, chief executive officer, Harish Bijoor Consults Inc., "The key challenges here are about ubiquity, use of the service and how well a company manages to convey the sense of speed. Therefore, Idea will have to focus on 3G and the technological edge it can bring to its offerings in order to differentiate itself from others."

Another area where Idea remains vulnerable is maintaining its status as a pure-play GSM player with a limited product portfolio. "Today, most operators cater to various customer segments, but Idea has not ventured into businesses such as home entertainment, broadband (currently limited to dongles), enterprise services and global presence. This could be a drawback," says a telecom expert from KPMG. For example, competitors like Bharti Airtel have launched 4G broadband services, while Idea does not have a strategy for this segment.

Overall, market experts say that in the coming years, Idea could increase its focus on the small and medium enterprise market in small cities and towns; find ways to inorganically grow its revenue market share in the metros; and leverage its existing infrastructure to tap the wireless broadband potential. According to them, the focus should be on ARPU improvement initiatives, which include establishing a large 3G subscriber base. This could be achieved through leveraging its high-end 2G subscriber base, and investments in relevant content and networks.

Recent initiatives and the way forward

Expanding its 3G footprint, tapping the rural subscriber segment and harnessing the potential of the voice segment are the company's key priorities.

Idea recently launched 3G services in Idukki, one of Kerala's most remote and backward districts. With this, the operator has extended 3G services to all districts of the state. It claims to have covered 50 per cent of Kerala's population with 3G services within a year of launch (about 1.3 million of its 7.3 million subscribers in the circle are on 3G). Idea has 1,700 3G towers in Kerala and offers the cheapest services in the circle.

Kapania is confident that 3G and data services will continue to drive wireless growth. To capitalise on this opportunity, the company plans to launch these services in 10 towns each day to cover 3,200 towns and provide high speed data services to 50 per cent of its subscriber base. Idea also intends to provide services such as m-banking, m-health and m-education, especially in rural India.

However, the operator believes that the business case for 3G cannot be built purely on data. As things stand, voice provides higher revenues as compared to data. The strategy is to optimise the mix of voice and data in order to make the most of its 3G investments. "The voice segment still has miles to go and Idea is poised to tap this opportunity. The operator expects to add 300-400 wireless customers in the next three to four years," Kapania says.

With a focus on rural subscribers, the operator continues to offer attractive plans. It recently launched the Idea Lifeline service in rural Maharashtra. The service provides customers an emergency top-up credit balance when they exhaust their talktime.

Moreover, in an effort to increase the adoption of green technologies, Idea has collaborated with Delta Power Solutions to establish fuel cell-powered telecom towers in Madhya Pradesh. The project entails the powering of 30 towers through green technologies. The fuel cell system will be integrated and deployed by Delta, along with its site management and control system. The tower company will also provide product and operational support to Idea under the managed service contract.

Industry analysts expect the company to ride out the rough patch it is passing through. Considering the operator's ambitious plans and its strong growth in the past few years, its future outlook seems promising.

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