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TELECOM CONNECT

A Credit News Digest on Telecom Sector in India

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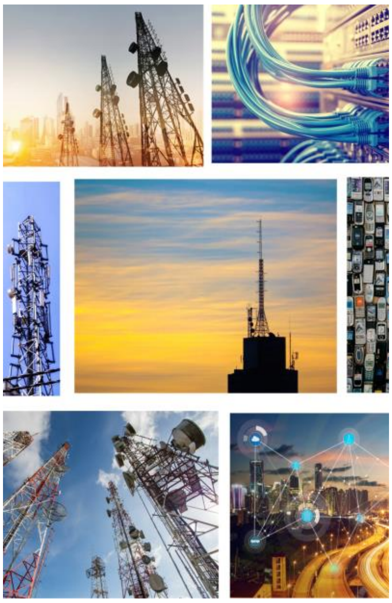
Telecom Connect – June Issue

Industry Now Consolidating on Subscriber Base

Must Read

FY18 OUTLOOK: TELECOMMUNICATIONS SERVICES



In This Edition

Ind-Ra Expert Opinion

Tanu Sharma
Associate Director,
Corporates

Disruption to Continue Impacting Industry Revenue

Monthly subscriber additions in the telecom industry showed declining trend over March-April 2017, after posting high growth during October 2016 to February 2017 on account of Reliance Jio Infocomm Ltd's (RJio) free offerings. RJio posted slowest growth in its subscriber base in April 2017 with 3.8 million net additions, although it continued to lead in terms of subscriber additions. RJio started charging for its services in April 2017, however, RJio's pricing remains heavily discounted.

Bharti Airtel Limited (Bharti) reported addition of 2.85 million subscribers in April 2017. Relatively low additions were recorded by Vodafone India Limited (Vodafone; 0.75 million) and Idea Cellular Limited (Idea; 0.68 million) in April 2017. Reliance Communications Limited (RCom), Tata Teleservices Limited, Aircel Limited, Sistema Shyam Teleservices Limited, and Telenor India Communications Private Limited reported negative subscriber additions over February-April 2017 as a result of competitive intensity and resultant market consolidation.

RJio has continued to cause disruption with its low-price 4G bundled offerings, which are at a significant discount to its competition. RJio's initial tariff plans suggested possibility of an uptick in the industry average revenue per user (ARPU), but its continued low pricing has put the industry revenues at risk.

Telecom tariffs are migrating to simplified bundled plans that club free voice and SMS with competitively priced data. Thus telcos are charging mainly for data leading to convergence of voice and data ARPUs. RJio's current tariff plan offers 1GB data per day for INR309 for 84 days, which translates to INR1.2/GB compared with pre-Rjio launch industry average of about INR250/GB and Rjio's indicated launch price of INR50/GB.

In response to the disruption, consolidation in the sector has accelerated with Vodafone India (hitherto #2) and Idea (#3) announcing a merger in February 2017. Moreover, smaller telecom companies are already exiting; Telenor India Communications sold operations to Bharti, which has got approval from Competition Commission of India in June 2017. The consolidation may help market dynamics to improve; however, revenue pressures remain in the short-term on the back of aggressive RJio pricing to retain its rapidly built customer base. Key challenge for telcos remains to retain their high-ARPU generating customers.

Industry revenue declined in the quarters ended December 2016 and March 2017 on account of free services offered by RJio. Adjusted gross revenue declined 9.2% yoy to INR373 billion in the quarter ended December 2016 and further declined 6.7% on a qoq basis to INR348 billion in the quarter ended March 2017. Industry revenue would be at risk as blended ARPU is expected to reduce unless compensated by high data usage. This, coupled with a pressure on EBITDA margin will impact the sector's debt servicing and financial flexibility. Broadband penetration is currently moderate at 20%, but rapidly growing data usage has a meaningful upside from the current levels (average < 1GB per capita). The higher data usage will demand increasing investments in network opex and capex, thereby resulting in negative free cash flows.

Credit Research by Ind-Ra

Market Wire: Linkages with Parent – Vodafone Group Plc May Moderate Post Vodafone-Idea Merger

The operational and strategic linkages between Vodafone Mobile Services Limited (VMSL; 'IND AAA'/RWE) and its parent - Vodafone Group Plc (Fitch Ratings Ltd; Issuer Default Rating: 'BBB+'/Stable) may moderate post the merger of VMSL and Idea, says India Ratings and Research (Ind-Ra). Last month, Idea and Vodafone Group announced the amalgamation of Idea and Vodafone Group's Indian operations, excluding its investment in Indus Tower.

Ind-Ra is in the process of assessing the benefits of the synergy and the revised business and financial profile to arrive at the standalone assessment of the merged entity. While evaluating the standalone profile of the merged entity, Ind-Ra will factor-in the inherent risk of the industry, such as capital intensive, intense competition, technology and regulatory changes.

To read the full report, please click here.

Market Wire: RJio's New Prime Tariff Plan, While Boosting Industry ARPU, Would Target Peers' High-end Subscribers

Ind-Ra says RJio's ('IND AAA'/Stable) recently announced tariff plan for its first 100 million subscribers, who also subscribe to its Prime Membership Programme, would help improve the industry ARPU over the medium-to-long term. This is because the tariff plan under its Prime Membership Programme of INR303/month/subscriber generates an ARPU of INR260 (net of taxes), which is higher than the industry-blended ARPU (incumbents blended ARPU of INR190 and data ARPU of INR150).

To read the full report, please click here.

Telecom Industry to Consolidate amid Hypercompetition in FY18

Ind-Ra has revised its outlook on the telecommunications services sector for FY18 to negative from stable-to-negative. The negative outlook reflects Ind-Ra's expectation of longer and deeper than expected deterioration in the credit profile of telcos following the extended free services by RJio.

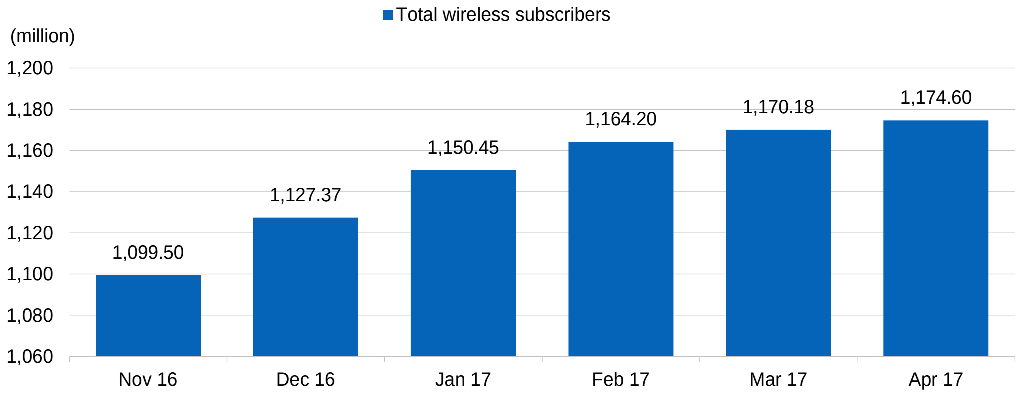
A redistribution of market share among the existing telcos is underway as RJio gained a quick subscriber base of 72 million by January 2017 which could cross 100 million by March 2017. RJio's ability to retain market share would be driven by both pricing as well as user experience given the choice of complete reliance on voice over LTE (VoLTE) technology. The industry could witness the increase in the dual-sim phenomena in the interim. Thus, the data and voice usage pattern for each telco could remain inconsistent and unpredictable. Retaining customer base will necessitate the telcos to continue to augment their capacity and coverage for superior speed and virtual network platforms.

To read the full report, please click here.

Telco Connect

Consolidating Subscriber Base

Figure 1: Wireless Subscribers

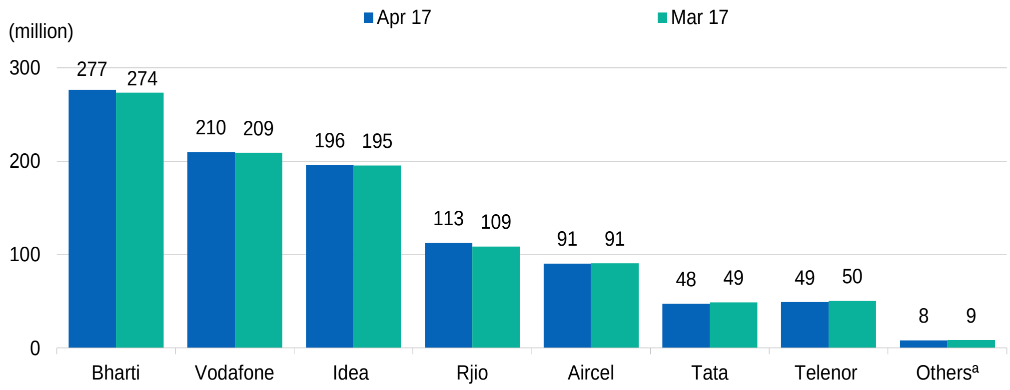


Source: TRAI, Ind-Ra

Viewpoint

4.4 million GSM subscribers were added during April 2017, slowing from 8.3 million in March 2017. This was led by lower additions by RJio, although it added the highest number of subscribers among telcos. Cumulative subscriber additions for the industry spiked between September 2016 and March 2017, mainly driven by the dual sim phenomenon post the launch of RJio. These numbers are also unadjusted for visitor location register (VLR) and appear high to that extent.

Figure 2: Subscribers by Operators: April 2017



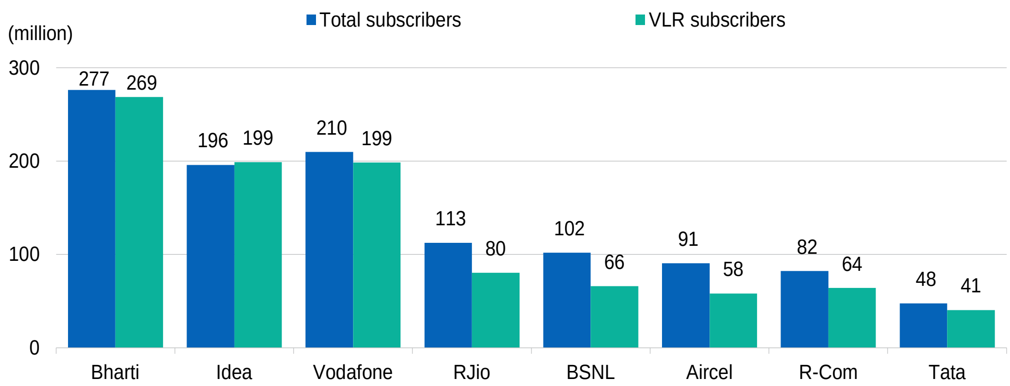
[a] Others: MTNL, SIstema
Source: COAI, TRAI, Ind-Ra

Viewpoint

The proportion of active wireless subscribers was approximately 86.4% of the total wireless subscriber base in April 2017 (April 2016: 90.3%). The lower industry VLR reflects the dual-sim phenomenon and an increase in dormant subscribers.

Bharti and Idea have higher a VLR than others.

Figure 3: VLR Subscribers: April 2017

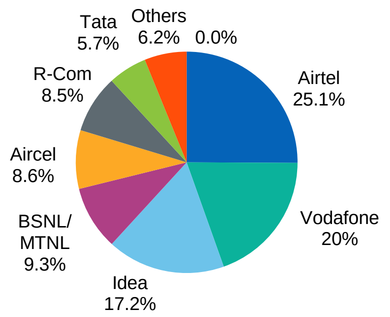


Source: TRAI, Ind-Ra

Competition Connect
Larger Players Gaining Subscriber Market Share

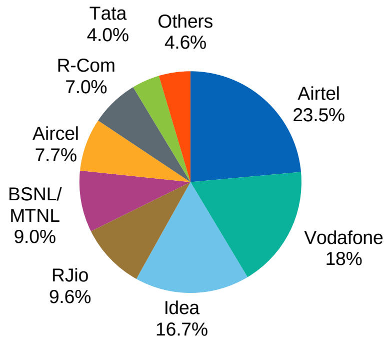
Viewpoint
RJio gained 9.6% market share between September 2016 and April 2017. Weaker players are losing market share with the competitive play shifting to data from voice.

Figure 4: Subscriber Share Pre-RJio Launch (August 2016)



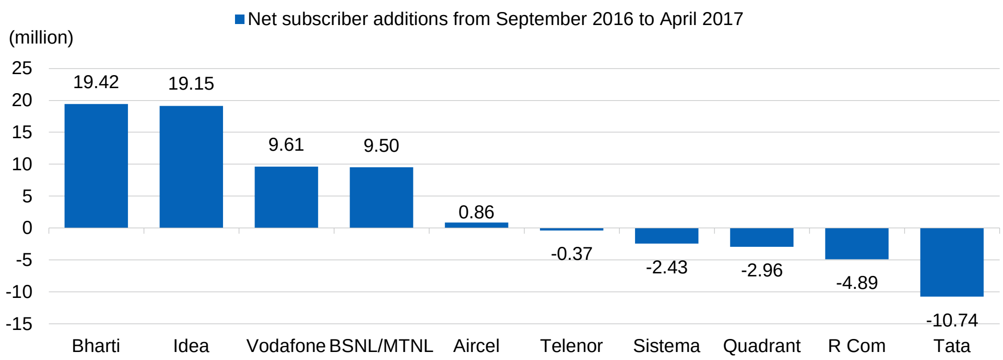
Source: TRAI, Ind-Ra

Figure 5: Subscriber Share (April 2017)



Source: TRAI, Ind-Ra

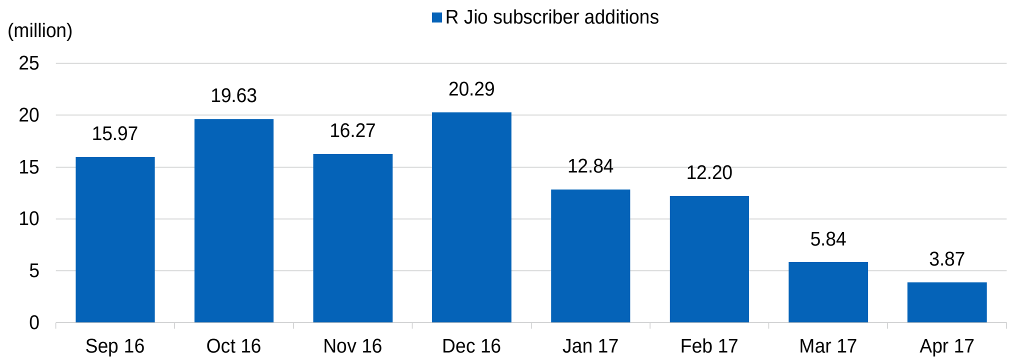
Figure 6: Movement in Subscriber Base



Source: TRAI, Ind-Ra

Viewpoint
RJio garnered a quick subscriber base of 112.5 million by April 2017 due to its free offerings. Although it has begun to price from April 2017, the tariffs are deeply discounted.

Figure 7: RJio Subscriber Additions



Source: TRAI, Ind-Ra

Subscriber Connect

Subscriber Additions Slowed Down in April 2017

Viewpoint

The high subscriber additions witnessed in 2HFY17 have now started slowing down.

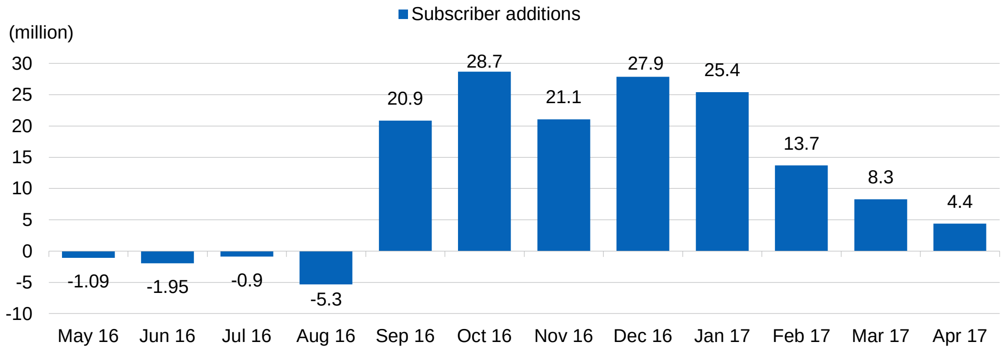
Telcos are bundling offerings having a focus on higher ARPU.

Users are likely to make a choice between multiple connections.

A churn in the subscriber base could be witnessed, given the execution challenges under the VoLTE technology.

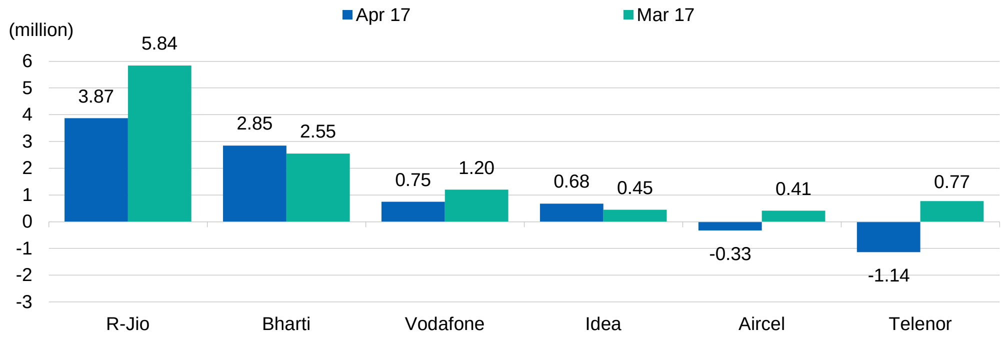
Negative subscriber additions during May-August 2016 largely reflect RCom's CDMA (Code Division Multiple Access) subscriber base reduction after RCom's migration to the LTE technology.

Figure 8: Subscriber Additions: LTM



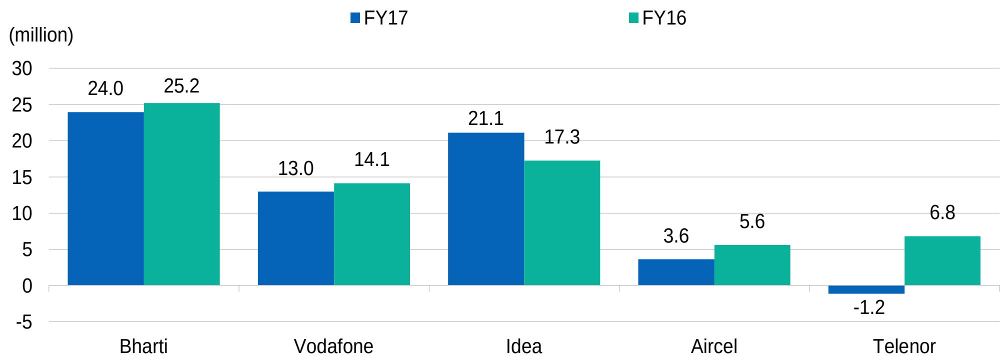
Source: TRAI data , Ind-Ra

Figure 9: Subscriber Additions: April 2017



RJio figures for March 2017 not available
Source: TRAI, COAI, Ind-Ra

Figure 10: Subscriber Additions: FY17



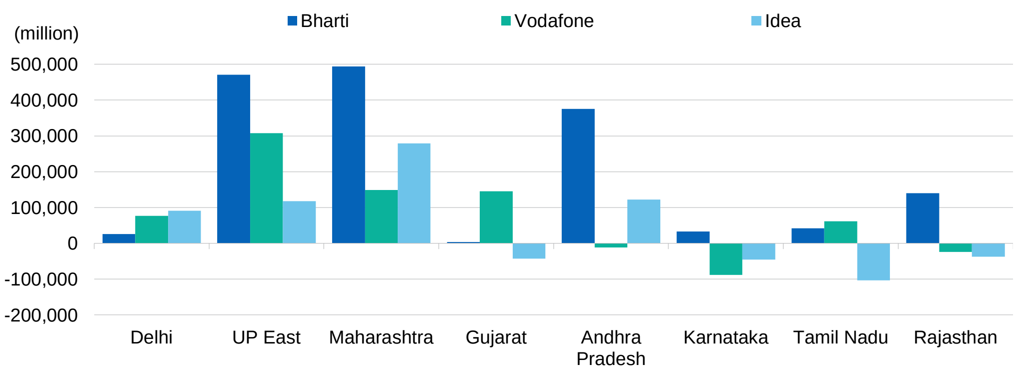
RJio figures for March 2017 not available
Source: COAI, Ind-Ra

Circle Connect

Viewpoint

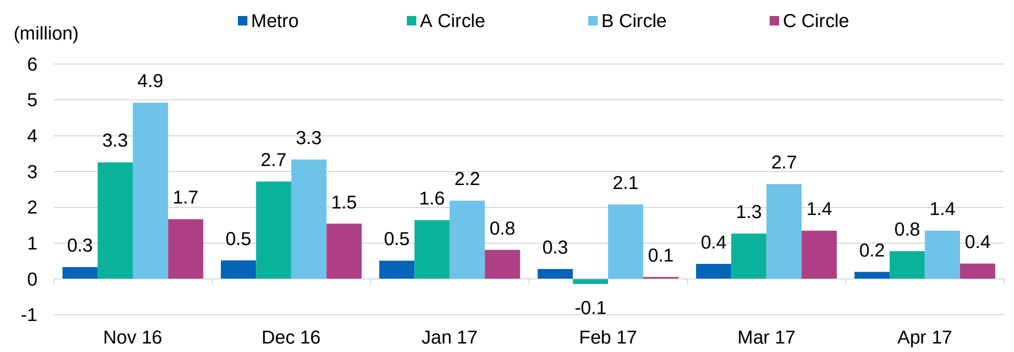
Bharti's subscriber additions were healthy in Uttar Pradesh (UP) East, Maharashtra and Andhra Pradesh but were tepid in Delhi, Gujarat, Karnataka and Tamil Nadu in April 2017 on a month-on-month basis. Vodafone lost subscribers in Rajasthan, Karnataka and Tamil Nadu. Idea reported healthy subscriber additions in UP East, Maharashtra and Andhra Pradesh but reported negative additions in Gujarat, Rajasthan, Karnataka and Tamil Nadu.

Figure 11: Subscriber Additions Top 8 Circles: April 2017



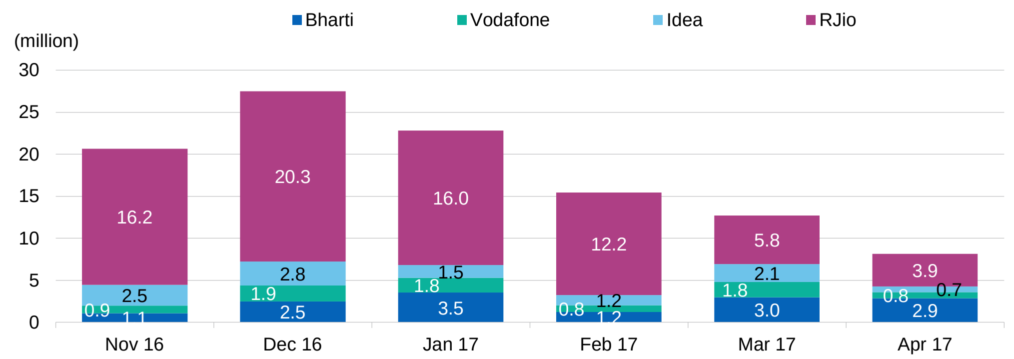
Source: COAI, excluding RJio, Ind-Ra

Figure 12: Circle-wise Subscriber Additions: November 2016-April 2017



Source: COAI data, excluding RJio, Ind-Ra

Figure 13: Subscriber Additions Mix: November 2016-April 2017



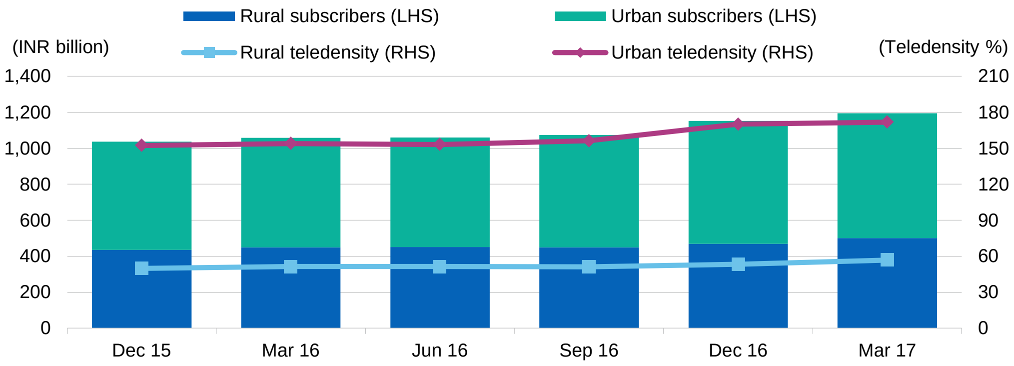
Source: TRAI, COAI, Ind-Ra

Rural Market Connect

Viewpoint

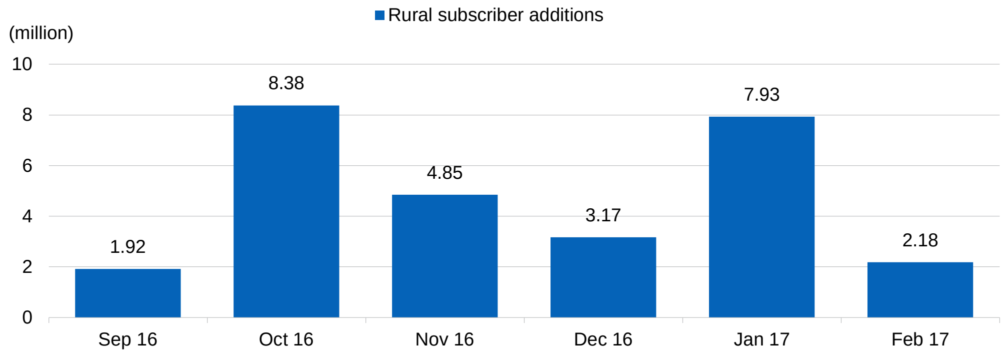
Rural markets are hitherto providing positive net additions to the subscriber base, as against urban markets which have saturated. Additions are highest in B circles. The overall tele-density in India increased to 89.90% for quarter ended December 2016 from 84.09% for quarter ended September 2016.

Figure 14: Tele-density: March 2017



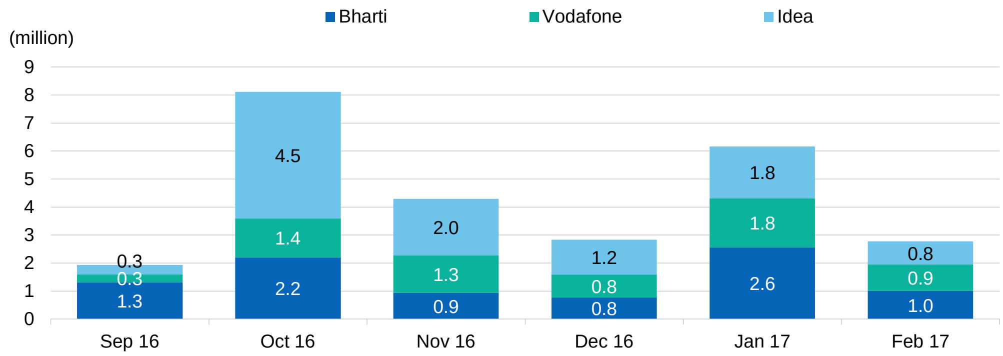
Source: TRAI, Ind-Ra

Figure 15: Rural Subscriber Additions: November 2016-April 2017



Source: COAI data excluding RJio, Ind-Ra

Figure 16: Rural Subscriber Additions Mix: September 2016-February 2017



Source: TRAI, COAI, Ind-Ra

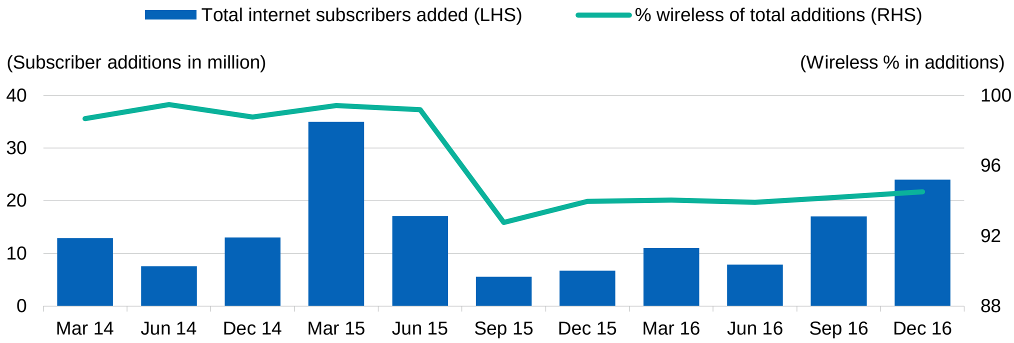
Data Connect

Data Pie Expanding Helped by Dipping Tariffs

Viewpoint

The pace of addition to internet subscribers has increased since RJio launched its services in September 2016. In India, the growth in internet subscribers is driven by wireless. Total internet subscribers were 391.5 million in December 2016 out of which 94.5% were wireless.

Figure 17: Wireless Internet Subscriber Additions: December 2016



Source: TRAI, Ind-Ra

Broadband Subscribers

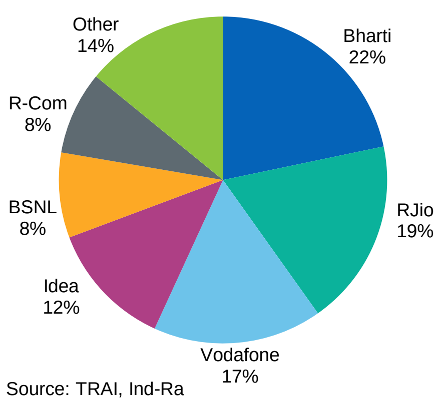
Viewpoint

RJio topped the broadband subscriber market share at 42% as all its subscribers are broadband subscribers, followed by Bharti at 20%.

Viewpoint

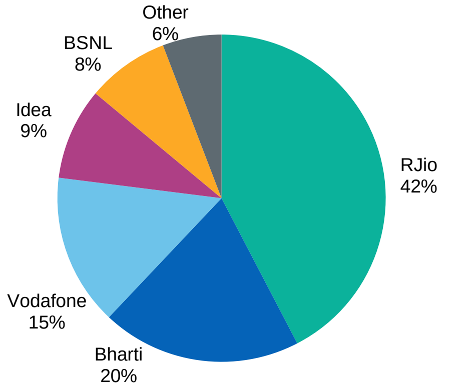
With RJio's free services and the sequential fall in the overall industry RPMs, data usage per subscriber per month (GSM) increased multifold to 884MB in December 2016 from 236MB in September 2016.

Figure 18: Internet Subscriber Market Share (December 2016)



Source: TRAI, Ind-Ra

Figure 19: Broadband Subscriber Market Share (April 2017)

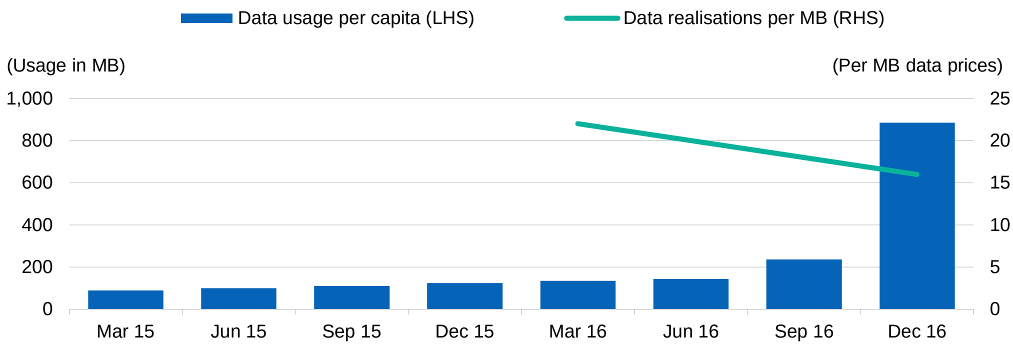


Source: TRAI, Ind-Ra

Viewpoint

Data consumption per user has strong growth potential led by price elasticity of demand, and ecosystem advancement. RJio's free offerings over September 2016 to March 2017 tested the price elasticity of data consumption in India, leading to 3x-4x increase in data usage during the quarter ended December 2016.

Figure 20: Data Usage: GSM Mobile Users



Source: TRAI, Ind-Ra

ARPU Connect

Competitive Intensity Drives ARPUs Lower

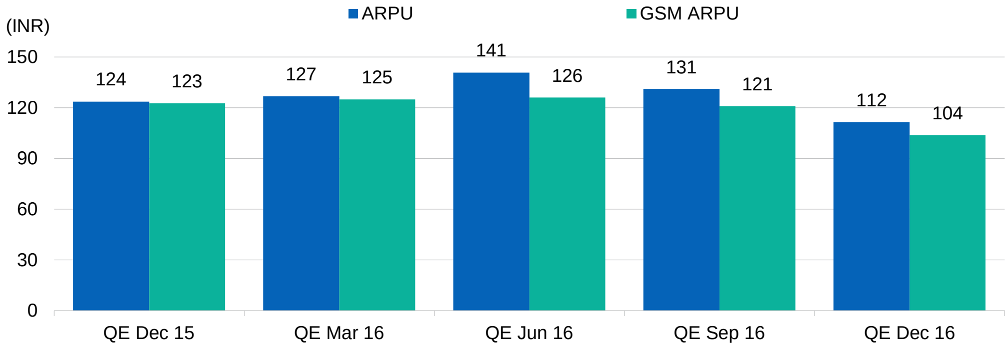
Viewpoint

All India blended ARPU declined 14.5% to INR112 for the quarter ended December 2016 from INR131 for the quarter ended September 2016.

ARPUs were hit by discounts given by existing telcos in response to the free offer extension of RJio to retain their customers.

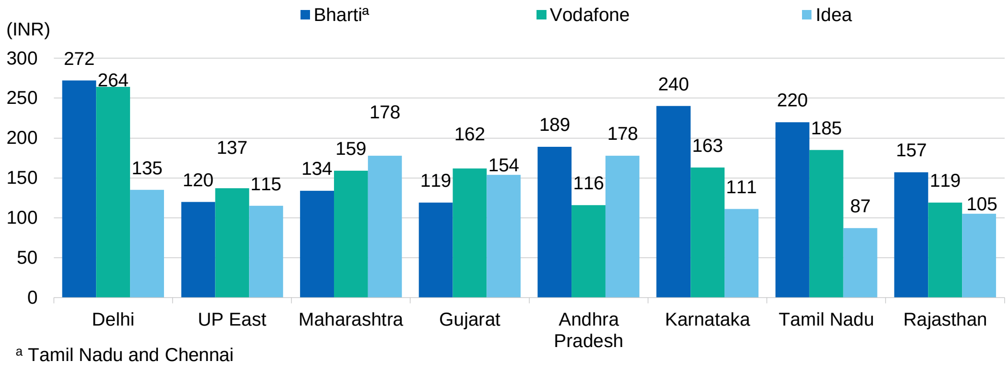
Industry ARPU would correct once RJio starts full pricing of its services.

Figure 21: ARPU:2HFY17



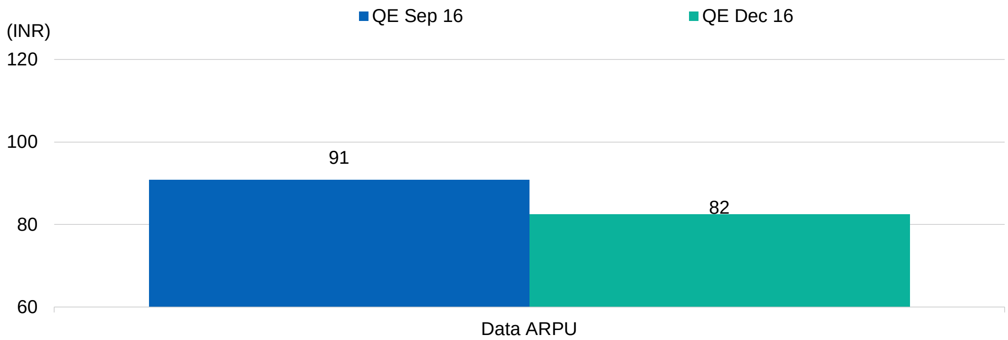
Source: TRAI; based on Industry Adjusted gross revenues, Ind-Ra

Figure 22: ARPU Comparison Across Top Circles – 2QFY17



[a] Tamil Nadu and Chennai
Source: COAI, Ind-Ra

Figure 23: Data ARPU: QE Dec 16



Source: Company reports, Ind-Ra

Figure 24: Tariff Plan Comparator

Incumbents	Tariff	Validity (days)	Voice Pricing	Data offered	Realisation Per GB	RJio price differential (x)
RJio	INR303	84	Free	84GB	1.3	
Bharti	INR399	70	Free	70GB	2.5	2
Vodafone	INR297	28	Free	4GB	74.3	58
Idea	INR348	28	Free	4GB	87.0	68

Source: Ind-Ra

Regulation Watch

Consultation Paper on Regulatory Principles of Tariff Assessment

Telecom Regulatory Authority of India (TRAI) released Consultation Paper on Regulatory Principles of Tariff Assessment on 17 February 2017. Key highlights include:

- Limits on Tariff: Provision of ceiling and floor on certain telecommunication services.
- Reporting Requirement: TSPs have to report to TRAI any new tariff and the subsequent changes.
- Transparency and Consumer Protection: Tariff charged along with the terms and conditions attached to it by the TSPs should be published in a manner as prescribed by TRAI from time to time

Withdrawal of RJio's Summer Surprise Offer

In early April 2017, TRAI asked RJio to withdraw its Summer Surprise offer for its prime customers as these promotional offers were not in line with the regulatory framework. RJio has agreed to withdraw the offer as soon as possible. Summer Surprise offer comprised three-month complimentary offer of unlimited data usage and free calls on payment of a minimum INR303.

Rating Actions by Ind-Ra in Telecom Sector in 2017

- India Ratings Places Vodafone Mobile Services and its NCDs on RWE

Outstanding Ratings

Figure 25: Telecom Ratings

Issuer	Long-term Issuer Rating/Outlook (Current)	Long-term Issuer Rating/Outlook (End-FY16)
Reliance Jio Infocomm Limited	IND AAA/Stable	--
Vodafone Mobile Services Limited	IND AAA/RWE	--
Tata Teleservices (Maharashtra) Limited	IND A/Negative	IND A+/Stable

Source: Ind-Ra

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