



India Ratings  
& Research  
A Fitch Group Company



# TELECOM CONNECT



A Credit News Digest on Telecom Sector in India

[www.indiaratings.co.in](http://www.indiaratings.co.in)





## Telecom Connect – June Issue

Industry Now Consolidating on Subscriber Base

### In This Edition

#### Must Read

**FY18 OUTLOOK:  
TELECOMMUNICATIONS  
SERVICES**



---

[Ind-Ra Expert Opinion | 2](#)  
[Credit Research | 3](#)

#### Telecom Sector Update

---

[Telco Connect | 4](#)  
[Competition Connect | 5](#)  
[Subscriber Connect | 6](#)  
[Circle Connect | 7](#)  
[Rural Market Connect | 8](#)  
[Data Connect | 9](#)  
[ARPU Connect | 10](#)  
[Regulatory Watch | 11](#)

#### Ratings Action for the Month

---

[Recent Rating Actions | 12](#)

#### More Action

---

[Outstanding Ratings | 13](#)

[Contacts | 14](#)

**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**

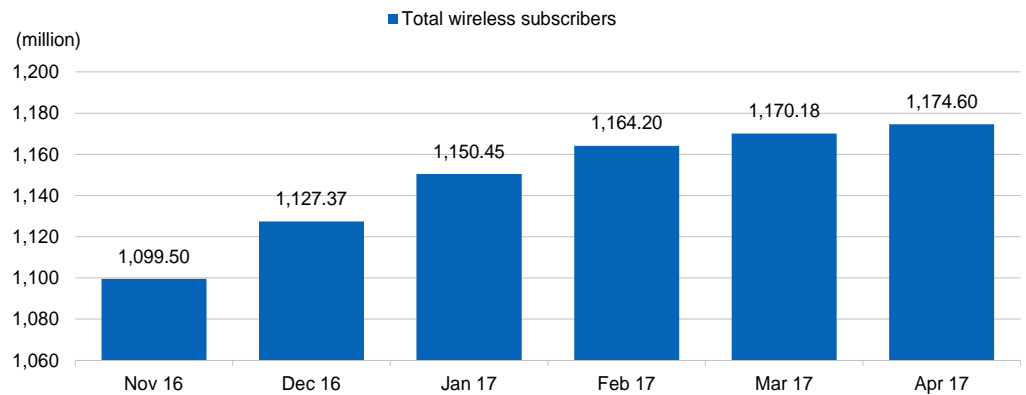
Ind-Ra has revised its outlook on the telecommunications services sector for FY18 to negative from stable-to-negative. The negative outlook reflects Ind-Ra's expectation of longer and deeper than expected deterioration in the credit profile of telcos following the extended free services by RJio.

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**

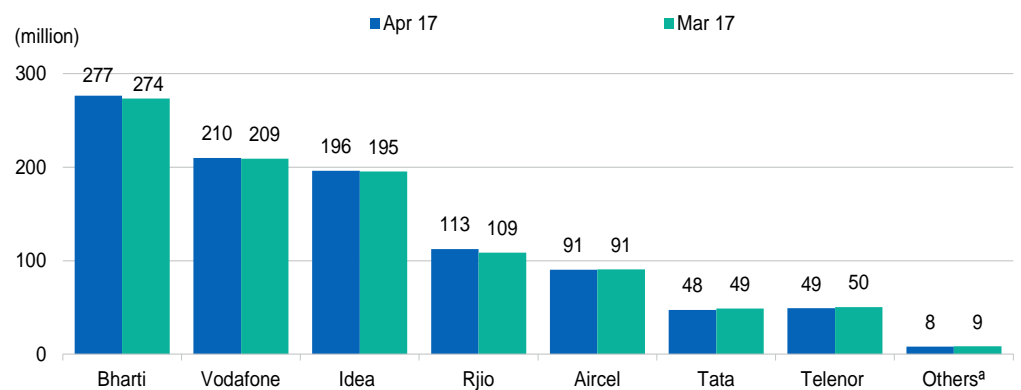


Source: TRAI, Ind-Ra

**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**

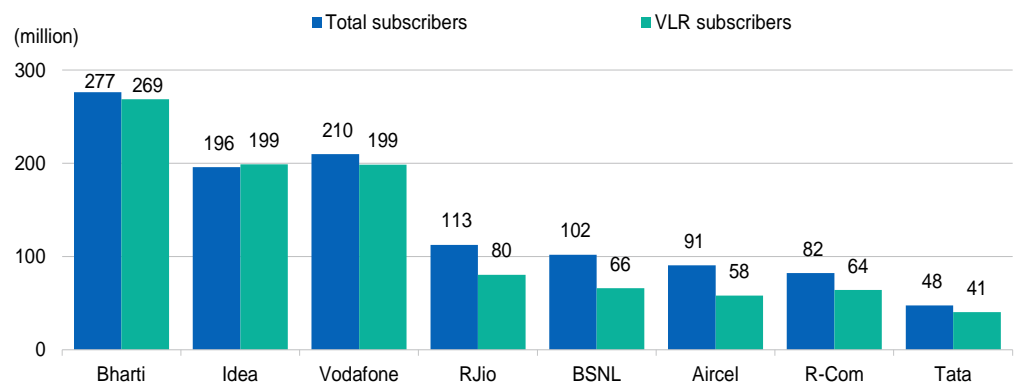


<sup>a</sup> Others: MTNL, Sistema  
Source: COAI, TRAI, Ind-Ra

**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**



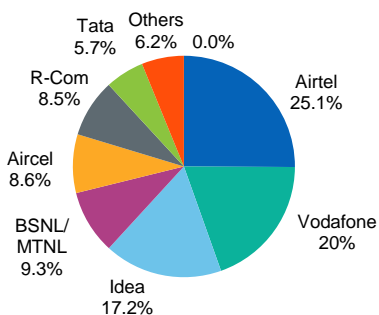
Source: TRAI, Ind-Ra

## Competition Connect Larger Players Gaining Subscriber Market Share

### Viewpoint

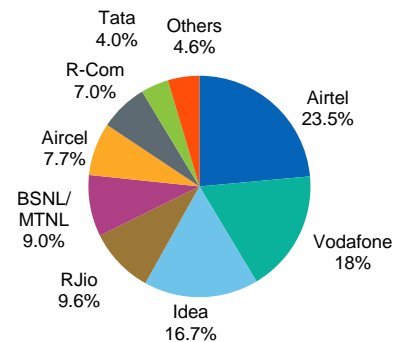
RJio gained 9.6% market share between September 2016 and April 2017. Weaker players are losing market share with the competitive play shifting to data from voice.

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



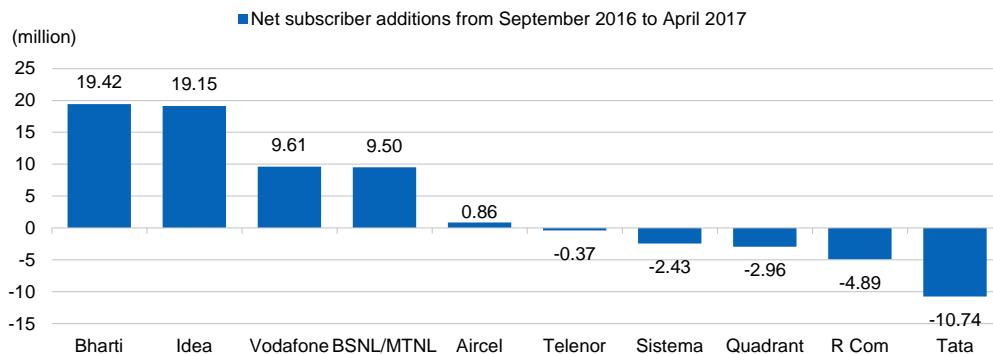
Source: TRAI, Ind-Ra

**Figure 5: Subscriber Share (April 2017)**



Source: TRAI, Ind-Ra

**Figure 6: Movement in Subscriber Base**

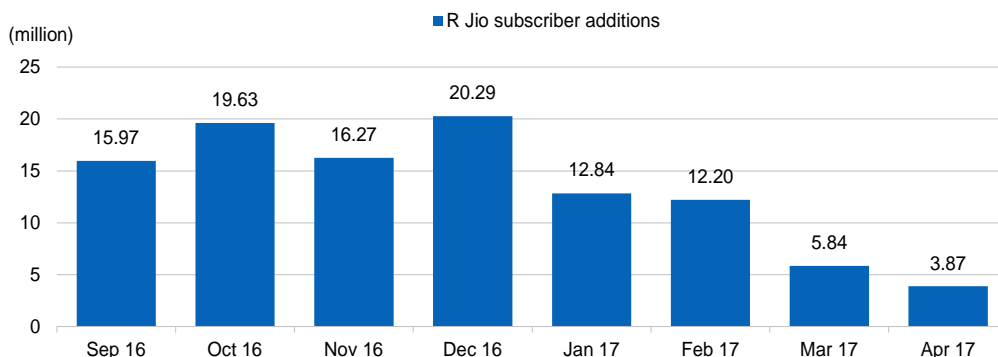


Source: TRAI, Ind-Ra

### 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.

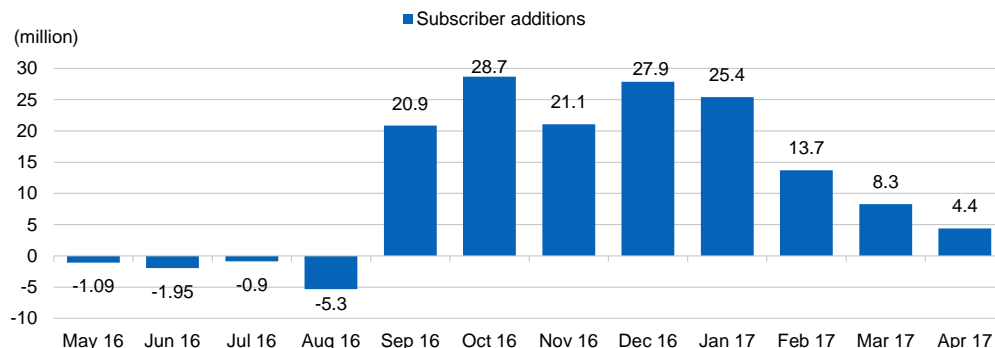
Telcos are bundling offerings having a focus on higher ARPU.

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.

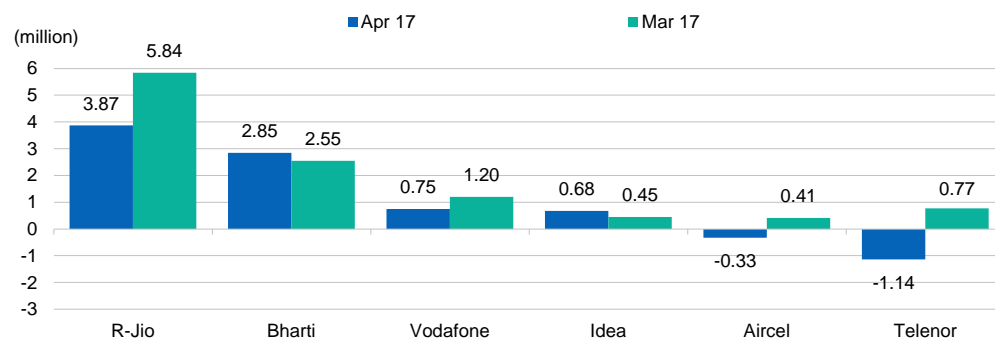
Negative subscriber additions during May-August 2016 largely reflect RCom's CDMA (Code Division Multiple Access) subscriber base reduction after RCom's migration to the LTE technology.

**Figure 8: Subscriber Additions: LTM**



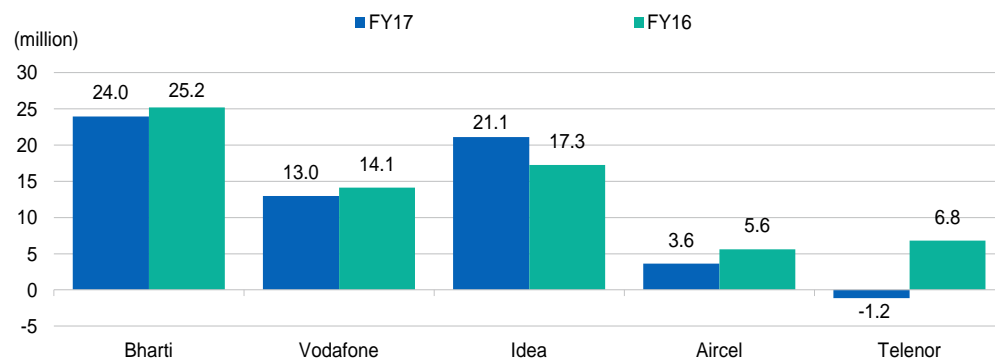
Source: TRAI data , Ind-Ra

**Figure 9: Subscriber Additions: April 2017**



R.Jio figures for March 2017 not available  
Source: TRAI, COAI, Ind-Ra

**Figure 10: Subscriber Additions: FY17**



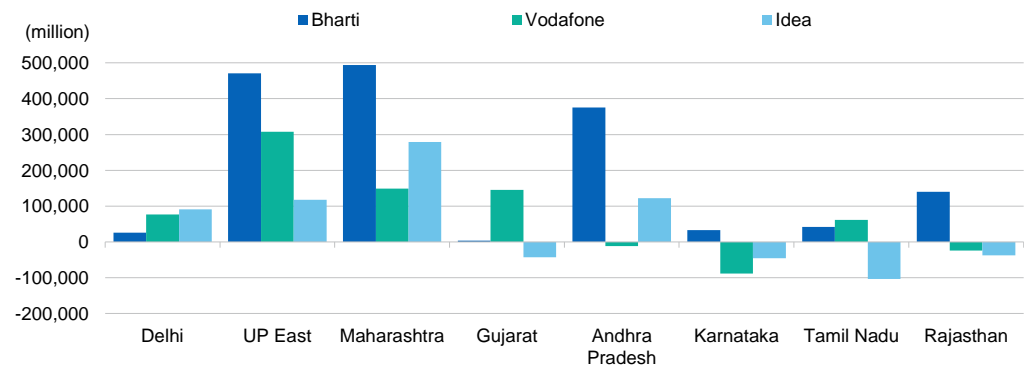
R.Jio figures for March 2017 not available  
Source: COAI, Ind-Ra

**Circle Connect**

**Viewpoint**

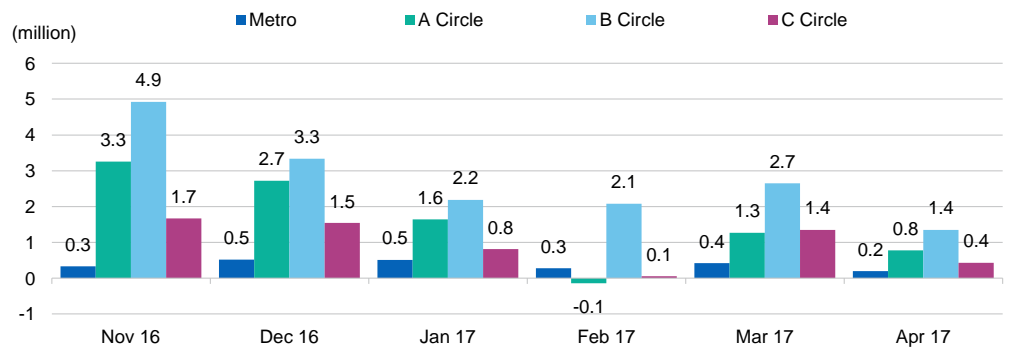
Bharti's subscriber additions were healthy in Uttar Pradesh (UP) East, Maharashtra and Andhra Pradesh but were tepid in Delhi, Gujarat, Karnataka and Tamil Nadu in April 2017 on a month-on-month basis. Vodafone lost subscribers in Rajasthan, Karnataka and Tamil Nadu. Idea reported healthy subscriber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



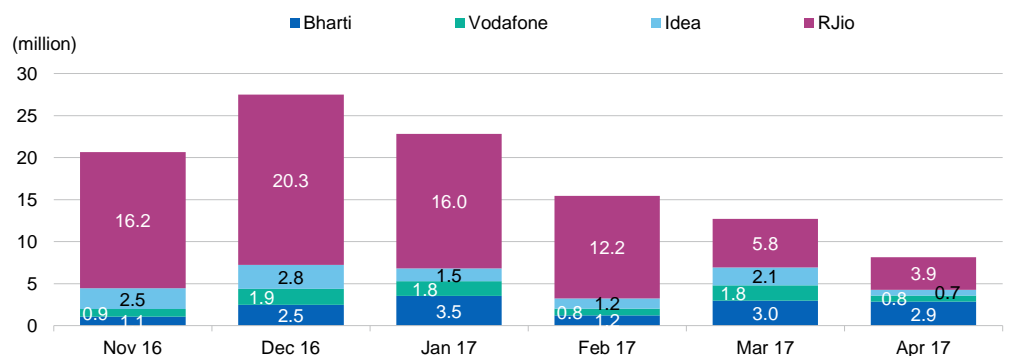
Source: COAI, excluding RJio, Ind-Ra

**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**

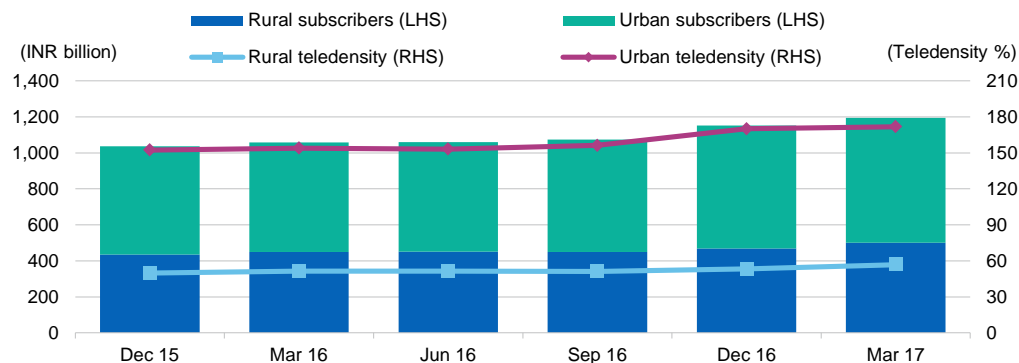


Source: TRAI, COAI, Ind-Ra



## Rural Market Connect

**Figure 14: Tele-density: March 2017**

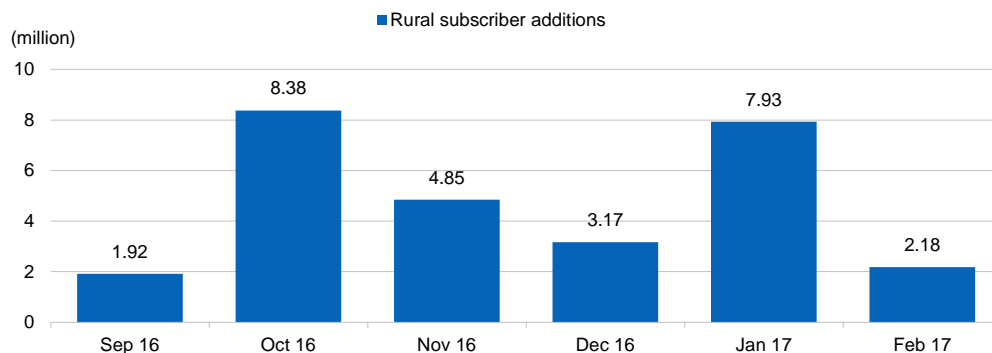


Source: TRAI, Ind-Ra

### Viewpoint

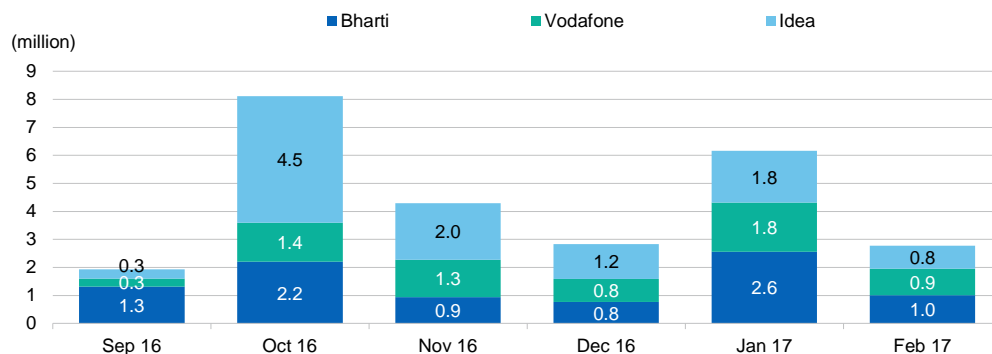
Rural markets are hitherto providing positive net additions to the subscriber base, as against urban markets which have saturated. Additions are highest in B circles. The overall tele-density in India increased to 89.90% for quarter ended December 2016 from 84.09% for quarter ended September 2016.

**Figure 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

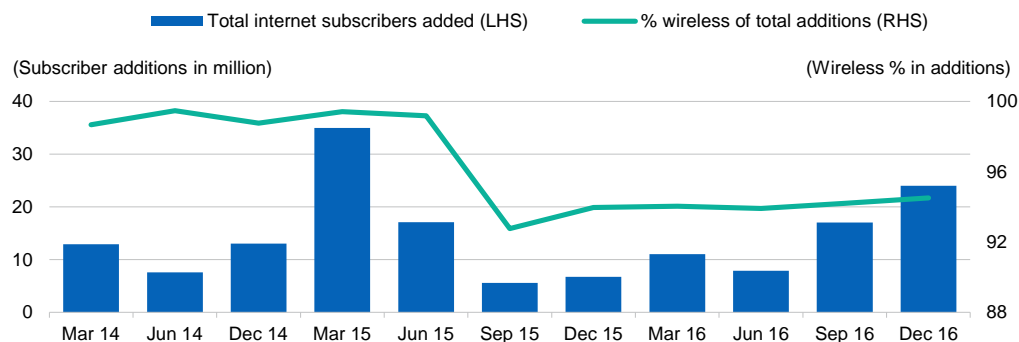
### Viewpoint

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.

### Data Connect

#### Data Pie Expanding Helped by Dipping Tariffs

**Figure 17: Wireless Internet Subscriber Additions: December 2016**



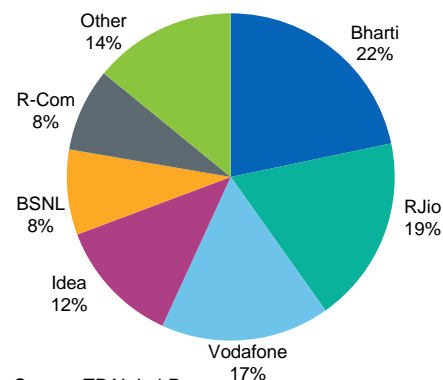
Source: TRAI, Ind-Ra

### Viewpoint

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

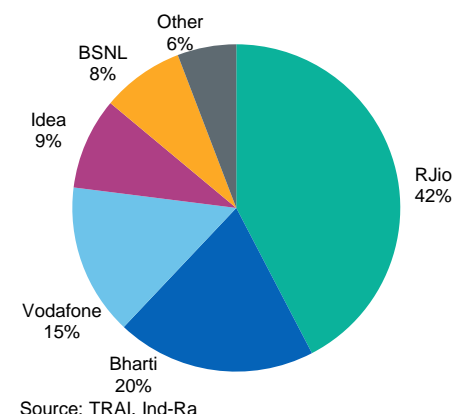
### Broadband Subscribers

**Figure 18: Internet Subscriber Market Share (December 2016)**



Source: TRAI, Ind-Ra

**Figure 19: Broadband Subscriber Market Share (April 2017)**

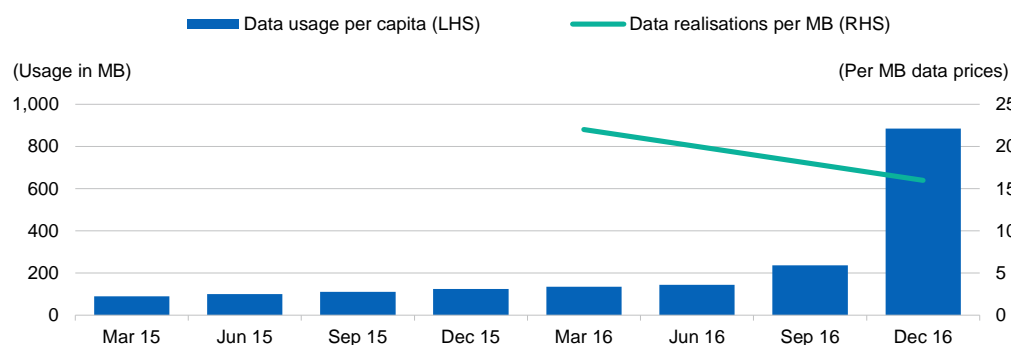


Source: TRAI, Ind-Ra

### Viewpoint

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 20: Data Usage: GSM Mobile Users**



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.

**ARPU Connect**  
**Competitive Intensity Drives ARPUs Lower**

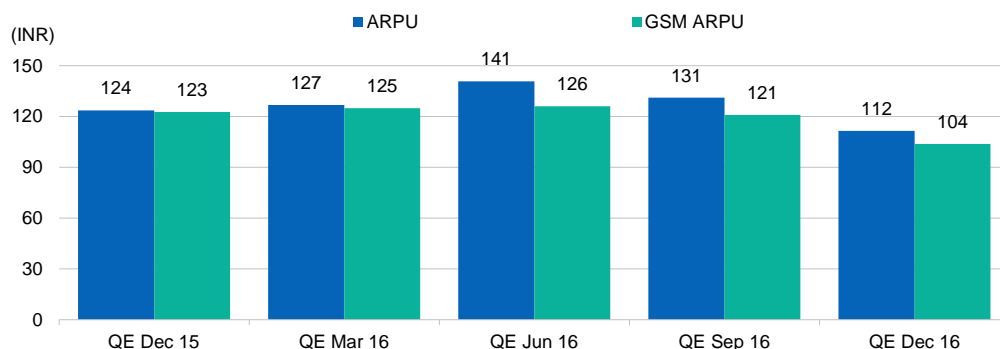
**Viewpoint**

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.

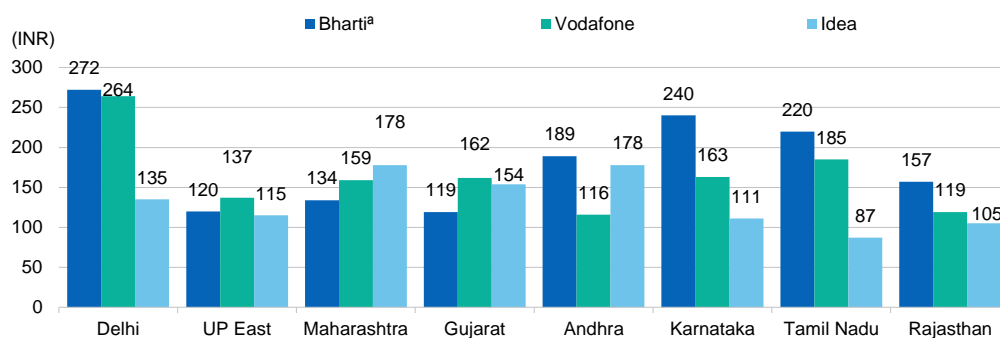
Industry ARPU would correct once Rjio starts full pricing of its services.

**Figure 21: ARPU:2HFY17**



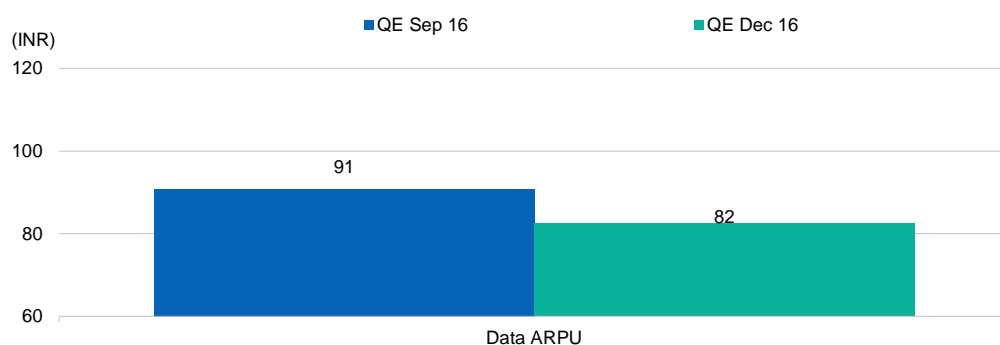
Source: TRAI; based on Industry Adjusted gross revenues, Ind-Ra

**Figure 22: ARPU Comparison Across Top Circles – 2QFY17**



<sup>a</sup> 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**

| <b>Issuer</b>                           | <b>Long-term Issuer Rating/Outlook (Current)</b> | <b>Long-term Issuer Rating/Outlook (End-FY16)</b> |
|---|--|---|
| 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

## India Ratings – Key Contacts

### **Business & Relationship Management**

*Tarun Bansal*  
[tarun.bansal@indiaratings.co.in](mailto:tarun.bansal@indiaratings.co.in)  
+91 11 43567250

### **Analytical**

*Salil Garg*  
[salil.garg@indiaratings.co.in](mailto:salil.garg@indiaratings.co.in)  
+91 11 43567244

### **Delhi**

*P V Vijairaghavan*  
[vijairaghavan.pv@indiaratings.co.in](mailto:vijairaghavan.pv@indiaratings.co.in)  
+91 11 43567238

*Tanu Sharma*  
[tanu.sharma@indiaratings.co.in](mailto:tanu.sharma@indiaratings.co.in)  
+91 11 43567243

### **Ahmedabad**

*Sachin Gupta*  
[sachin.gupta@indiaratings.co.in](mailto:sachin.gupta@indiaratings.co.in)  
+91 79 40055035

### **Bengaluru**

*Prasanth Chegu*  
[prasanth.chegu@indiaratings.co.in](mailto:prasanth.chegu@indiaratings.co.in)  
+91 80 46666809

### **Chennai**

*Dinesh Kumar*  
[dinesh.kumar@indiaratings.co.in](mailto:dinesh.kumar@indiaratings.co.in)  
+91 44 43401716

### **Hyderabad**

*Suryanarayana Mangina*  
[suryanarayana.mangina@indiaratings.co.in](mailto:suryanarayana.mangina@indiaratings.co.in)  
+91 40 40258885

### **Kolkata**

*Amit Roy*  
[amit.roy@indiaratings.co.in](mailto:amit.roy@indiaratings.co.in)  
+91 33 40302502

### **Mumbai**

*Rajshekar Kalluri*  
[rajshekar.kalluri@indiaratings.co.in](mailto:rajshekar.kalluri@indiaratings.co.in)  
+91 22 40001784

## Investor & Media Queries

*Archana Tiwari*  
[Archana.tiwari@indiaratings.co.in](mailto:Archana.tiwari@indiaratings.co.in)  
+91 22 40001729

*Diana Monteiro*  
[diana.monteiro@indiaratings.co.in](mailto:diana.monteiro@indiaratings.co.in)  
+91 22 40356122

*Mihir Mukherjee*  
[mihir.mukherjee@indiaratings.co.in](mailto:mihir.mukherjee@indiaratings.co.in)  
+91 22 40356121

The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings and Research has been compensated for the provision of the ratings.

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT [WWW.FITCHRATINGS.COM](http://WWW.FITCHRATINGS.COM). PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2017 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.