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# TELECOM CONNECT



A Credit News Digest on Telecom Sector in India

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# Telecom Connect – August 2017 Issue

Data Growth Partly Offsets Aggressive Competition

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Consolidation Effect**

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## Key Highlights

- There is a steep increase in data usage benefitting from free fall in data prices. Data usage increased sharply in the quarter ending (QE) June 2017, but the drop in pricing was sharper, which has led the average revenue per user (ARPU) to fall q-o-q. Gradually pricing will stabilise so that data would contribute to higher ARPUs.
- Industry-adjusted gross revenue declined 4.7% q-o-q to INR283 billion in QE June 2017.
- The pace of subscriber additions slowed down during June-July 2017. While 6 million net subscribers were added in June 2017, the peak VLR-based (visitor location register-denotes active subscribers) additions were only 3.2 million.
- Vodafone India Limited (Vodafone) and Idea Cellular Limited (Idea) reported subscriber loss in most top circles in July 2017.
- Bharti Airtel Limited's (Bharti) subscriber additions were healthy in Karnataka and Tamil Nadu but it reported loss of subscribers in Bihar, Maharashtra, east Uttar Pradesh and Rajasthan in July 2017 on m-o-m basis.
- Reliance Jio Infocomm Limited (RJio - 'IND AAA/Stable') had gained 10.4% subscriber market share by June 2017. Top three telcos lost 4% market share while rest of the players lost 6.4%.
- The overall tele-density in India increased to 93.98% in June 2017 from 83.2% in June 2016. However active subscriber base (measured by VLR ratio) fell to 86.1% in June 2017 from 88.4% in June 2016.
- Telecom Regulatory Authority of India (TRAI) is looking at reduction in interconnect usage charges (IUC) from the current 14 paise per minute to sub 10 paise. The aim is to reduce the voice call tariffs. If approved, the proposed reduction would hit the EBITDA margins of telcos where incoming calls from other networks are more than outgoing calls to other networks.

**Ind-Ra Expert Opinion**



**Tanu Sharma**  
Associate Director,  
Corporates

**Telecom Towers: Data Growth Offsets Consolidation Effect**

The ongoing consolidation in the Indian telecom sector could turn out to be credit neutral for tower companies as reduction in redundant tenancies and higher bargaining power of telcos will be offset by the requirement for additional data sites and upgradation of the existing 2G/3G sites to 4G sites on account of rising data demand. Accelerated network investments by carriers such as Bharti and Vodafone-Idea are drivers for growth in revenue and tenancies of tower companies.

Indian telecom sector will remain in capacity augmentation stage for 4G capability over the next 1-2 years which would involve deploying new spectrum as well as channel aggregation. There are about 420,000 telecom towers in India with an average tenancy ratio of 2x-2.2x which could increase by 15%-20% over FY18-FY19 with 4G emerging as a predominant data technology. Operators will also continue to offload more data to Wifi networks and small cell networks.

Revenues of tower companies will be protected in the short to medium term with tenancy additions from 4G expansions likely to offset tenancy losses emanating from the merger of Vodafone and Idea, Reliance Communications Limited with Aircel Limited and Telenor India Communications Private Limited's acquisition by Bharti. Rjio has a target to set up 200,000 cell sites by mid-2018 from current 120,000 cell sites at present. The likely proliferation of the low cost 4G feature phones is also likely to drive the data demand.

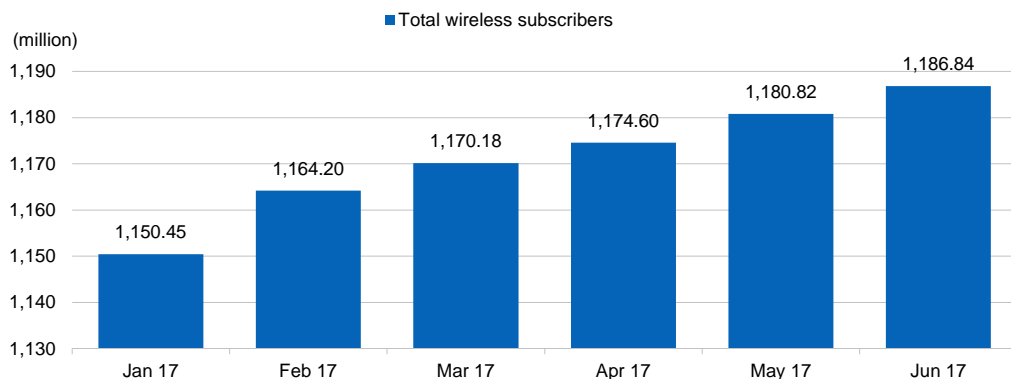
Counterparty risk remains critical for telecom tower companies. The average rental per tower could remain under pressure in FY18 due to deteriorating financial health of the telecom companies, despite contractual escalators embedded in master service agreements. However, site upgradation and data driven site growth will support the revenue growth. Base Transceiver Station additions are likely to be strong, particularly with operators launching and/or expanding their 3G and 4G service offerings. Further, the cash flows of telecom tower companies are also likely to be protected from the exit penalties upon consolidation due to cancellation of duplicate agreements.

The tower business is characterised by high front-ended capex, high operating leverage and financial profile improvement directly linked to growth in tenancy ratio. As most of the tower operators work on a build-to-suit model having at least one anchor tenant with long term lock-in periods, tower companies have a strong and steady stream of predictable annuity cash flows but low working capital requirements. Tower companies have high operating leverage due to relatively low variable operational expenses which leads to improved margins upon increase in asset sweating.

**Telco Connect**  
**Consolidating Subscriber Base**

**Figure 1: Wireless Subscribers: June 2017**

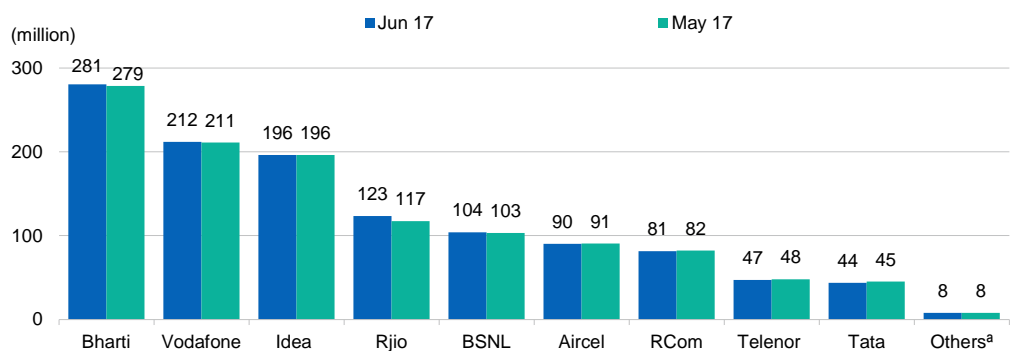
**Viewpoint**  
Subscriber growth remained stable with 6 million GSM subscribers added during June 2017 (6.2 million additions in May 2017).



Source: TRAI, Ind-Ra

**Viewpoint**  
RJio added the highest number of subscribers, at the cost of most other telcos who reported subscriber loss.

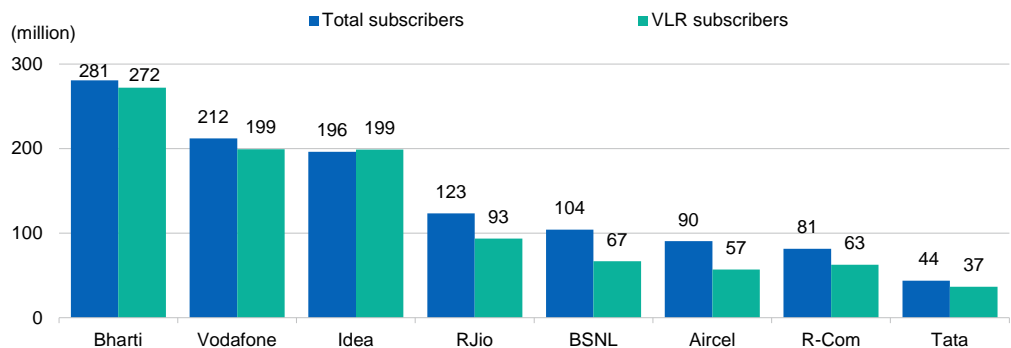
**Figure 2: Subscribers by Operators: June 2017**



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

**Viewpoint**  
The proportion of active wireless subscribers reduced to 86.1% of the total wireless subscriber base in June 2017 (June 2016: 88.4%). The lower industry VLR multiple sims for voice and data post RJio launch.

**Figure 3: VLR Subscribers: June 2017**



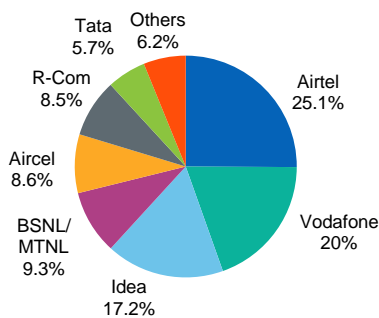
Source: TRAI, Ind-Ra

## Competition Connect Aggressive Competition Persists

### Viewpoint

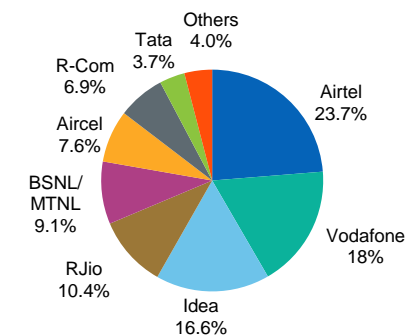
RJio gained 10.4% subscriber market share between September 2016 and June 2017. Top three telcos lost 4% market share on combined basis and rest of the players lost 6.4%.

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



Source: TRAI, Ind-Ra

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

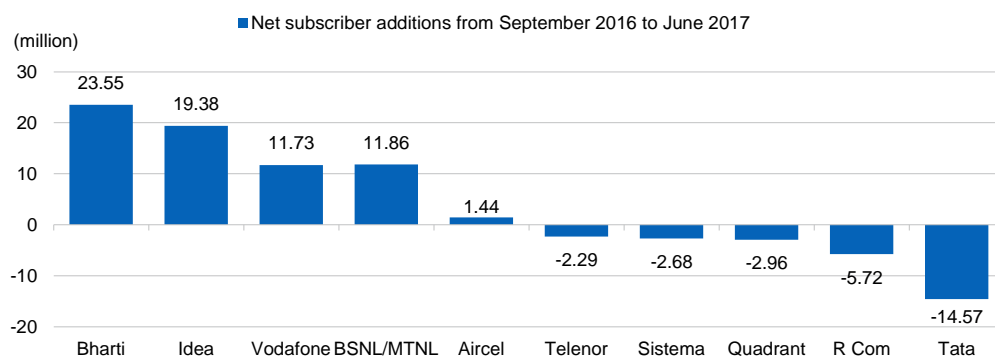


Source: TRAI, Ind-Ra

### Viewpoint

Bharti, Idea and Vodafone continued to gain subscribers while the smaller telcos continued to lose subscribers in June 2017.

**Figure 6: Movement in Subscriber Base**

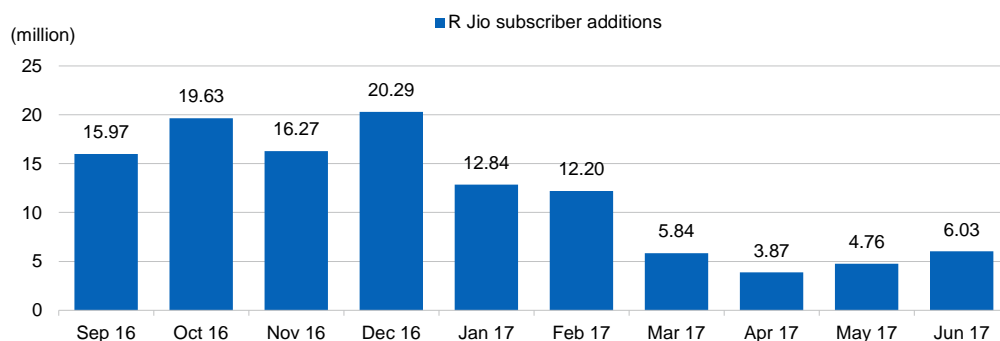


Source: TRAI, Ind-Ra

### Viewpoint

RJio subscriber addition exhibited an increasing trend for the 2<sup>nd</sup> consecutive month in June 2017 after a sharp decline in March 2017.

**Figure 7: RJio Subscriber Additions**

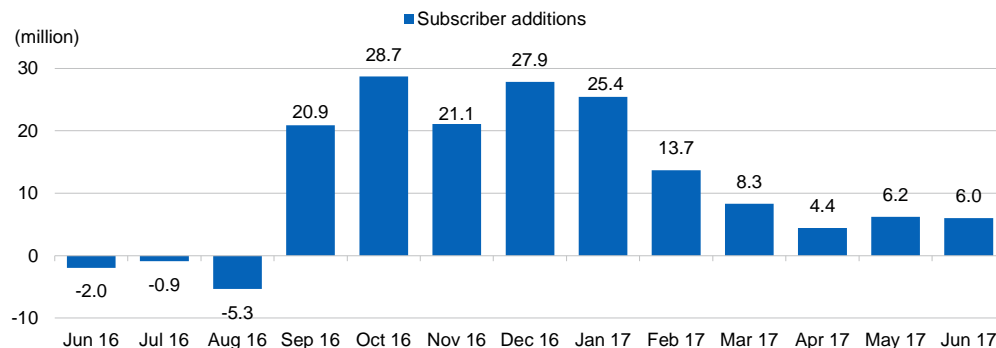


Source: TRAI, Ind-Ra

## Subscriber Connect Subscriber Losses Reflect Industry Churn

Industry subscriber additions largely reflect the subscriber additions by RJio

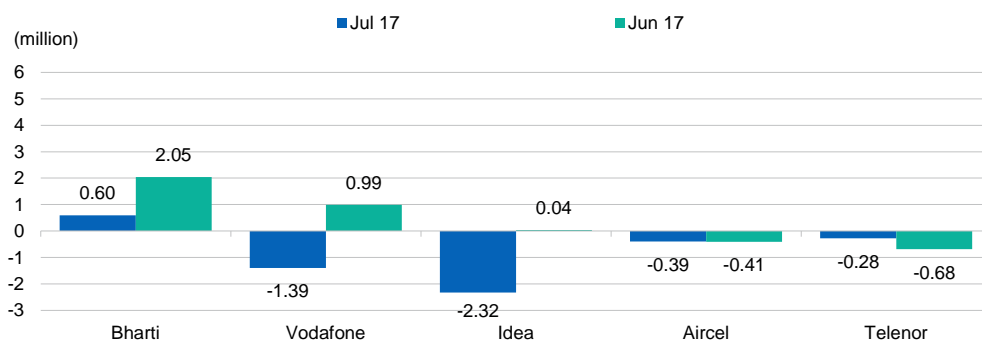
**Figure 8: Subscriber Additions: Last Twelve Months**



Source: TRAI data , Ind-Ra

**Viewpoint**  
Vodafone and Idea reported subscriber loss in July 2017 for the first time in the last 12 months. Bharti also reported 70% lower subscriber additions.

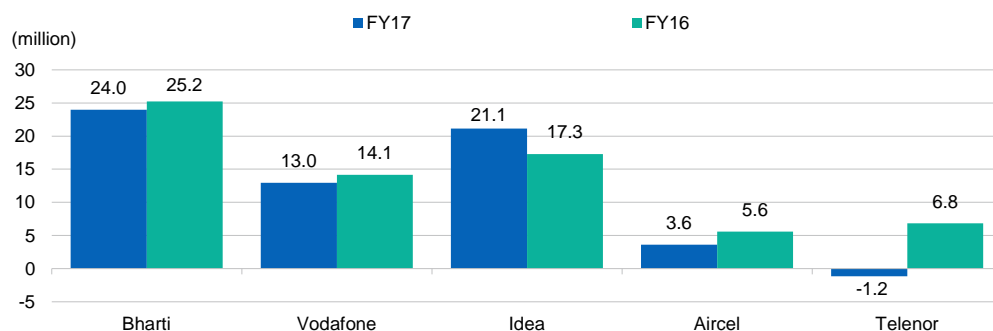
**Figure 9: Subscriber Additions: July 2017**



Source: TRAI, COAI, Ind-Ra

Lower yoy subscriber additions by existing operators in FY17 reflect launch of services by new incumbent.

**Figure 10: Subscriber Additions: FY17**



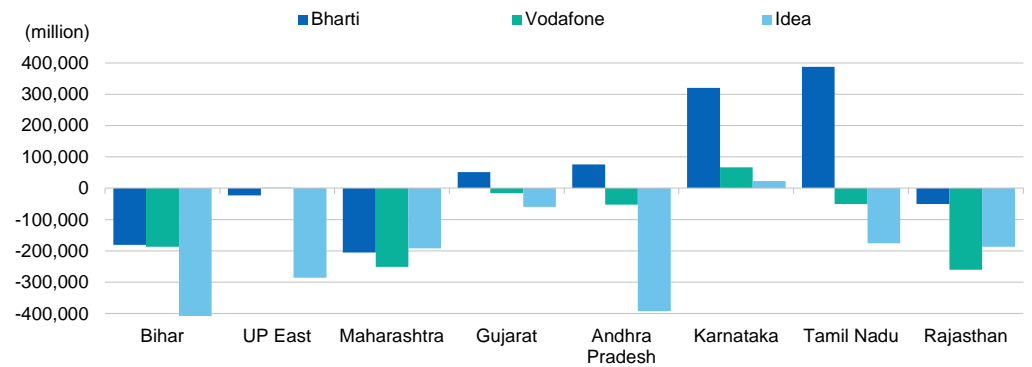
RJio figures for March 2017 not available  
Source: COAI, Ind-Ra

**Circle Connect**

**Viewpoint**

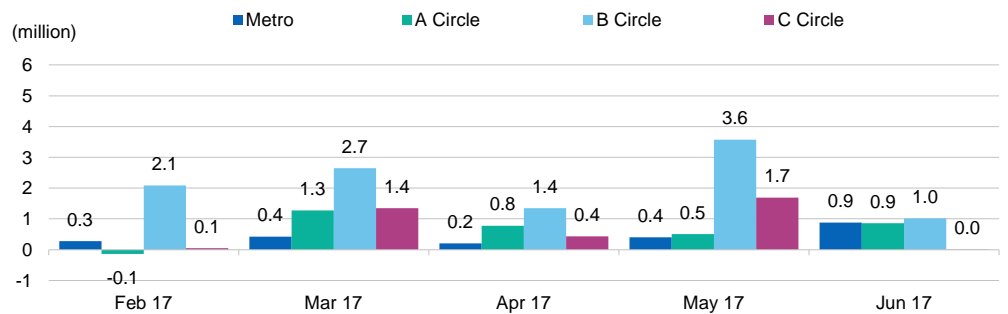
Bharti's subscriber additions were healthy in Karnataka and Tamil Nadu but it reported loss of subscribers in Bihar, Maharashtra, east UP and Rajasthan, in July 2017 on m-o-m basis. Vodafone and Idea reported negative subscriber additions in most top circles.

**Figure 11: Subscriber Additions in Top 8 Circles: July 2017**



Source: COAI, excluding RJio, Ind-Ra

**Figure 12: Sub-Circle-wise Subscriber Additions: January 2017-June 2017**

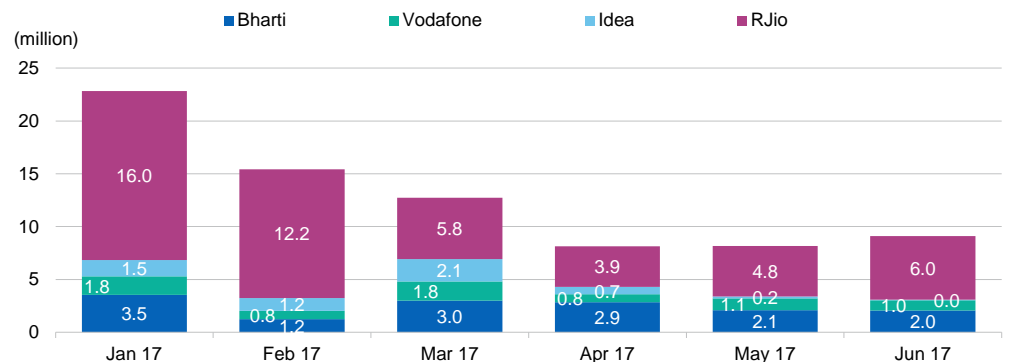


The 'metro' circles cover very dense population centers in the very largest Indian cities: Delhi, Kolkata, and Mumbai. The 'A', 'B', and 'C' circles cover various geographic territories of varying population sizes. 'A' circles are the largest in terms of population coverage. 'C' circles contain the smallest population

Source: COAI data, excluding RJio, Ind-Ra

B circles representing Tier III cities contributed to the highest subscriber additions in June 2017.

**Figure 13: Subscriber Additions Mix: January 2017-June 2017**



Source: TRAI, COAI, Ind-Ra

RJio dominates the subscriber additions mix

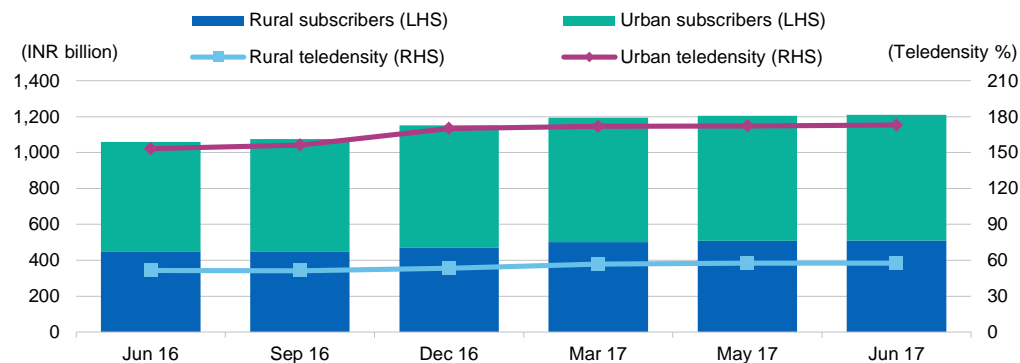


**Rural Market Connect**

**Viewpoint**

The overall tele-density in India increased to 93.98% in June 2017 from 83.2% in June 2016. However active subscriber base (measured by VLR ratio) fell to 86.1% in June 2017 from 88.4% in June 2016.

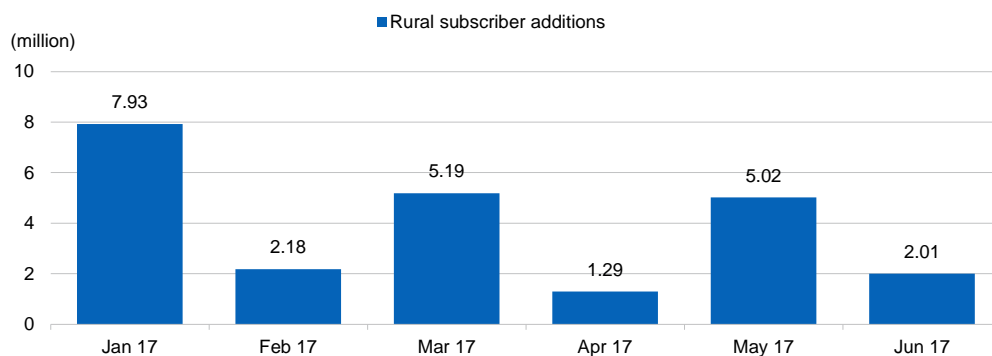
**Figure 14: Tele-density: June 2017**



Source: TRAI, Ind-Ra

Rural markets are hitherto providing positive but volatile additions to subscriber base.

**Figure 15: Rural Subscriber Additions: January 2017-June 2017**

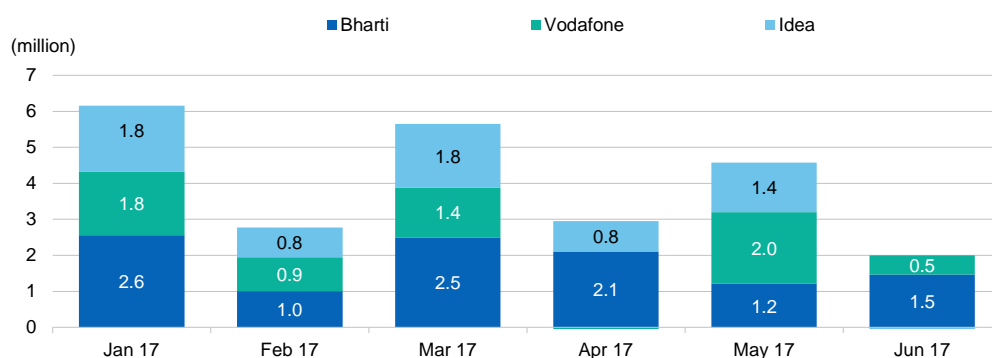


Source: COAI data excluding RJio, Ind-Ra

**Viewpoint**

Idea reported rural subscriber loss in June 2017. Bharti leads rural subscriber market share. Vodafone and Idea have higher share of rural subscribers in overall mix (~55%).

**Figure 16: Rural Subscriber Additions Mix (January 2017-June 2017)**



Source: TRAI, COAI, Ind-Ra

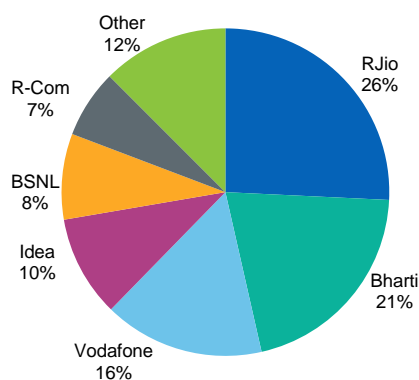
## Data Connect Progressive Increase in Data Usage

### Viewpoint

RJio topped the overall data as well as broadband subscriber market share at 26% and 41% respectively followed by Bharti at 21% and 18% in June 2017.

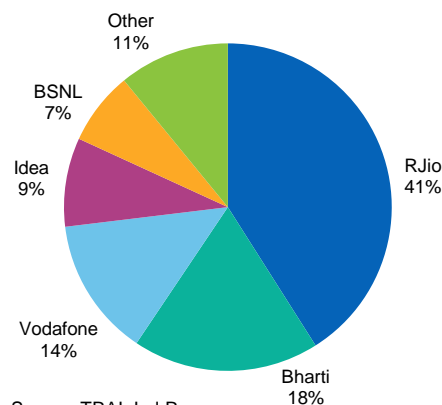
### Broadband Subscribers

**Figure 17: Data Subscriber Market Share (March 2017)**



Source: TRAI, Ind-Ra

**Figure 18: Broadband Subscriber Market Share (June 2017)**

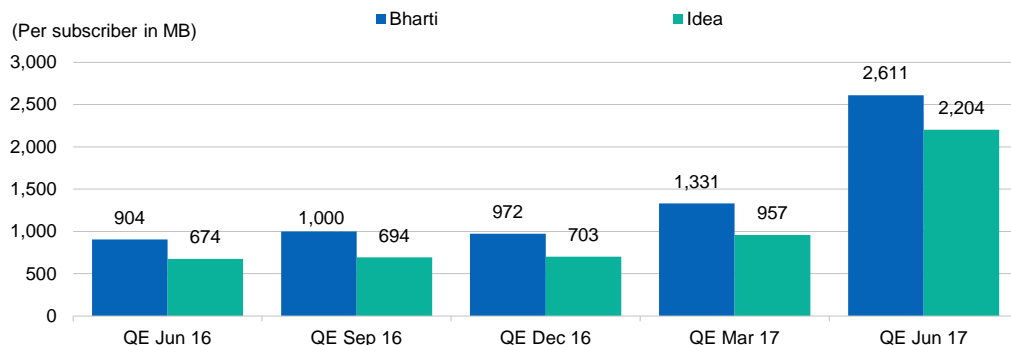


Source: TRAI, Ind-Ra

### Viewpoint

Data usage increased sharply in QE June 2017.

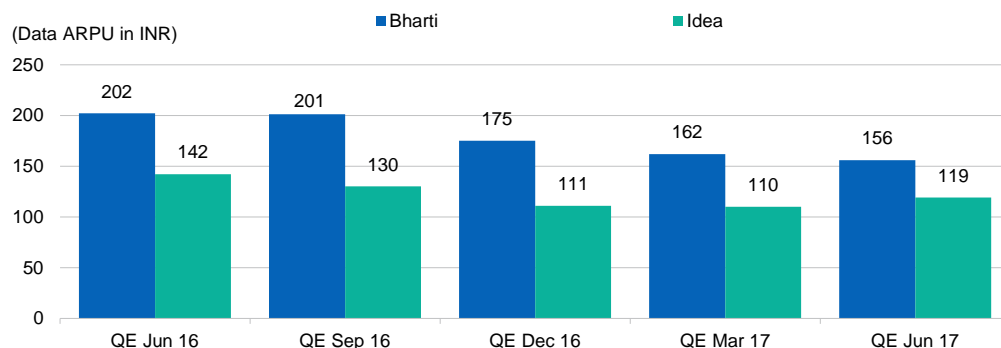
**Figure 19: Data Usage (June 2016-June 2017)**



Source: Company reports, Ind-Ra

The drop in realisations is sharper which has led the ARPUs to fall q-o-q. Gradually once pricing stabilises, that data usage would contribute to higher ARPU level.

**Figure 20: Data ARPU (June 2016-June 2017)**



Source: Company reports, Ind-Ra

## Regulation Watch

### Proposed Cut in Interconnect Charges

TRAI is looking at reduction in the IUC from current 14 paise per minute to sub 10 paise. The aim is to reduce the voice call tariffs.

Telcos have responded differently to the proposed reduction. Bharti, Vodafone and Idea have argued against the reduction claiming that 14 paise per minute is below the cost of carrying incoming calls and rather claimed an increase in IUC. RJio on the other hand is in favour of such reduction. IUC is the charge paid by telcos for the calls originating from their network and terminating on other networks. If approved, the proposed reduction would hit the EBITDA margins of telcos where incoming calls from other networks are more than outgoing calls to other networks.

### TRAI Released Consultation Paper on Privacy and Ownership of Data

On 9 August 2017 TRAI released consultation paper on Privacy and Ownership of Data to enable data protection in relation to delivery of digital services. Recommendations include notifications to data owners regarding purpose of data collection, only authorised dissemination of such data to third parties, and safeguard against misuse or destruction of data.

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