



Press Release

The Indian Mobile Services Industry: Braving the storm

A status check on how the Indian Mobiles Services industry is struggling to maintain growth

New Delhi, 11 August 2011: Cellular Operators Association of India (COAI) commissioned a study from PwC (PricewaterhouseCoopers) titled *“Indian Mobile Services Sector: Struggling to Maintain Sustainable Growth”*. The report highlights emerging trends in the mobile services industry and their impact on the National Telecom Policy objectives of spreading affordable telecom services in the country.

The mobile telephony industry in India witnessed unprecedented growth of more than 700%, from having less than a million subscribers in 1998 to over 752 million subscribers in 2010. The growth of the sector has favourably impacted the lives of the ordinary citizens by providing access to cheap communication services which were so far restricted on account of poor coverage. The industry has also played a vital role in India’s growth story and the industry today contributes nearly 2% of the GDP. More significant is its contribution in generating direct (2.8 million people) and indirect (nearly 7 million people) employment in the country.

The report indicates that although the industry has taken significant strides in the past decade, the task of providing access to mobile services at affordable rates across the hinterlands remains incomplete. The urban tele-density in the country at 154% is far ahead of the rural tele-density of 34%. While this spells opportunity for the industry, significant investments will be required in order to increase reach in the rural areas. Similarly, India’s internet and broadband penetration are only around 1.6% and 0.9% respectively. This can be explained by inadequate wireline infrastructure in the country. Hence, mobile broadband, which is an opportunity for providers, will require increasing investments.

Commenting on the challenges that the sector faces today, Mohammad Chowdhury, Executive Director and Leader- Telecom, PwC India said:

“The challenges that the Indian telecom sector faces today are unique and multi-faceted and will require innovative solutions coming from operators and regulator working together.”

In such a scenario, FDI participation and increased capital expenditures by industry participants are the need of the hour. Current trends indicate significant reversal in FDI inflows and capex outlays implying strong headwinds for the industry. FDI in Telecom sector in India was ~ USD

1.7 billion in FY2011, down by almost 35% compared with ~ USD2.6 billion in FY2010. Investments in sector by leading operators are down 50%.

Mobile operators in the country are experiencing declining financial performance. Increasing competition (significantly high number of operators compared to global benchmarks) has resulted in reduction in average revenues per minute to INR 0.5 per call in FY2010 from a high of INR 7.3 per call in FY2000. At the same time, the minutes of usage per subscriber has also decreased from a peak of 465 minutes in FY2007 to 369 minutes in FY2010. This has resulted in average revenue per user (ARPU) per month declining from INR 362 in FY 2005 to INR 105 in FY 2010 for GSM operators and from INR 256 to INR 68 for the same period for CDMA operators. While operators reported an overall growth in subscriber base by 43% between FY 2009 to FY 2010, the industry grew revenues only by 5% for the same period much less than inflation rate of 8.72% for the same period.

There has been a significant increase in network operating expenses besides governmental fees, levies, charges and penalties adding to margin pressures for the operators. India has a significantly high regulatory levy varying between 19% to 28% of the operator revenues. Rising interest rates have resulted in increase in debt servicing costs for operators. Consequently operators are under immense margin pressures (several reporting negative PATs). Similarly, most operators report a negative or low return on capital employed.

On how the situation can be improved, Siddharth Vishwanath, Executive Director-Consulting, PwC India says:

“If the mobile services industry is to continue to provide the multiplier effect for the Indian economy, it will need to be supported through proactive policy initiatives aimed at sustainability.”

The challenges are magnified for recent entrants and the smaller providers. On a combined basis these players have less than 5% of market share and clock only 2% of industry revenues. Most new entrants have launched services in less than 60% of the circles licensed to them. ARPU for new players is one-third that of the leading four players and half the size of mid-sized players.

The report recommends that the current ecosystem necessitates government intervention in order to meet the critical objectives of accessibility, affordability and sustainability laid out in the National Telecom Policy. There is a need to relook and redesign policies bringing them in alignment with the national objectives for this critical sector. The structural imbalances in the sector need to be rectified through proactive actions.

Mr. Rajan S Mathew, Director General COAI further emphasized “The industry is at a critical juncture and the vision of increased teledensity and broadband for masses can only be met by enlightened and supportive policy provided by the government and regulator that reduces the cost burden on the industry and provides the needed funds required for the massive investments to take the nation forward.

About COAI

The Cellular Operators Association of India (COAI) was constituted in 1995 as a registered, non-profit, non-governmental society dedicated to the advancement of communication, particularly modern communication through Cellular Mobile Telephone Services. With a vision to establish and sustain a world-class cellular infrastructure and facilitate affordable mobile communication services in India, COAI's main objectives are to protect the common & collective interests of its members. Prominent private service providers and the infrastructure vendors are members of COAI, and work closely on various Industry issues.

More about COAI at : (<http://www.coai.in/>)

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