

Idea / RCA / RV / 2017-18 / Nov / 205

November 06, 2017



Advisor (NSL),

Telecom Regulatory Authority of India

Mahangar Doorsnachar Bhawan

Jawahar Lal Nehru Marg, New Delhi – 110002.

**Subject: TRAI Consultation Paper on “Auction of Spectrum in 700 MHz, 800 MHz, 900 MHz, 1800 MHz, 2100 MHz, 2300 MHz, 2500 MHz, 3300-3400 MHz and 3400-3600 MHz bands”.**

**Kind Attention: Shri S.T. Abbas**

Dear Sir,

1. The Authority is already aware of the extreme financial stress prevailing in the telecom Industry. **In that context, the Authority will also recall the meeting that it had in June 2017 with the CEOs of all Telecom Companies wherein the issues related to the precarious health of the telecom sector and the steps needed to remedy the situation were discussed.** Further, the Authority is also aware of the constitution of an Inter-Ministerial Group by the Government for making its recommendations on the steps to be taken to address the financial stress in telecom sector, the recommendations of which are still awaited.
2. A closer look at the Industry financials reveals that the Industry has for the first time ever, registered a revenue drop for the full financial year, the AGR of the Industry having declined to **INR 1,404bn** for FY17 with a YoY decline of **4.9%**, while the AGR for Q1FY18 having declined to **INR 283bn** with a YoY decline of **27%**. We would also like to emphasize here that the industry situation has significantly worsened after the Oct'16 auctions with continuing quarter on quarter decline in revenues and profits (and increase in losses now) and increase in debt and leverage ratios. This is because the high spectrum cost along with the high regulatory levies have both contributed disproportionately to the debt burden resulting in unhealthy financial stress on the sector. The table below depicts the worsening financial condition of the Industry:

Idea Cellular Response on TRAI CP on spectrum auction



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Idea Cellular Limited

Regulatory & Corporate Affairs Office - 7th Floor, "Konnectus" Tower B, Bhavbhuti Marg,  
Opposite New Delhi Railway Station (Ajmeri Gate Side), New Delhi- 110002 India | W: [www.ideacellular.com](http://www.ideacellular.com)  
T: +91 11 2321 0134 / 0135 / 0136 | F: +91 11 2321 0138 | E: [info@idea.adityabirla.com](mailto:info@idea.adityabirla.com) | CIN : L32100GJ1996PLC030976  
Registered Office: Suman Tower, Plot No. 18, Sector No. 11, Gandhinagar 382011. T: +91 79 6671 4000 | F: +91 79 2323 2251

<b>Revenue (In Million)</b>			
<b>Operator</b>	<b>Q1FY17</b>	<b>Q1FY18</b>	<b>Change %</b>
Idea	94,866	81,665	-13.9%
Bharti Airtel (India Mobility)	150,420	129,147	-14.1%
RCOM (India Opeartion)	46,932	30,480	-35.1%
TTML	7,230	5,531	-23.5%

  

<b>PAT (In Million)</b>			
<b>Operator</b>	<b>Q1FY17</b>	<b>Q1FY18</b>	<b>Change %</b>
Idea	4,971	(6,170)	N.A.
Bharti Airtel	14,620	3,673	-74.9%
RCOM	542	(12,100)	N.A.
TTML	(1,081)	(4,814)	N.A.

3. **Few Telecom Companies recently announced immediate shut-down of their telecom operations; a clear reflection of the grim reality prevailing in the telecom sector.**
  
4. **The Regulator is also aware that the industry is currently undergoing some major M&A activity which is likely to take time to conclude. Under such a situation, It becomes important that the market is allowed time to return back to normalcy after completion of the merger activity post which the merging entities would be better placed to evaluate and explore any additional spectrum needs.**
  
5. **The Authority is fully aware that the ability of the TSPs to bid for and participate in any auction is contingent upon their ability to firstly have a business case for such spectrum and then the ability to make significant capital investments both for spectrum and the networks to be rolled out for the same. However, the industry situation today is quite depressing where almost all operators in the industry are incurring losses and given the total absence of returns from investments already made, both equity and debt capital is not forthcoming. The Indian Telecom Industry, that has already invested over **INR 9.2 lakh crores** in setting up world class mobile networks over the last 20 years is currently going through one of its most disruptive phases, and reeling under a heavy debt burden of over **INR 4.6 Lakh Crores**.**
  
6. In addition to the above industry related factors, It is important to note that :
  - a. The current revenue trends are totally in contrast to the growth assumptions made by TRAI while valuing the spectrum in past. The assumptions made by TRAI in its Recommendation dated 15<sup>th</sup> October 2014 are as under:

Year	Growth of subscribers	Growth of Voice MOU per subscriber per month	Growth of SMS per subscriber per month	Growth of Data Download per subscriber per month	Growth of ARPU per month
2015	4.0%	0%	0%	20%	5%
2016	4.0%	0%	0%	20%	5%
2017	3.5%	0%	0%	16%	4.5%
2018	3.0%	0%	0%	16%	4.5%
2019	2.5%	0%	0%	12%	4.5%
2020	2.0%	0%	0%	12%	4%

Note: TRAI assumptions were till year 2035

Based on above, the assumed revenue growth by TRAI (growth in subscribers & growth in ARPU) and actual/ estimated revenue growth, the difference in Revenue is as follows:

Year	Revenue as per TRAI Revenue Growth (Rs crs)	Actual Gross Revenue (Rs crs)	Difference (Rs crs)	Difference %
2015	180,157	183,161	+3,004	+1.7%
2016	196,372	193,010	-3,361	-1.7%
2017	212,081	189,901	-22,180	-10.5%
2018 (e)*	227,987	175,876	-52,111	-22.9%
2019	243,946	-		
2020	258,583	-		

\*Based on annualised 'Q1FY18 revenue

It is clear from the above that the current revenue trends are far below what was projected by TRAI in setting up the reserve price of spectrum. The shortfall gap is projected to be Rs.52,111 crs (23% ) for FY 18 and is likely to expand in the coming years considering current market trends. Hence, on one hand the reserve price was high as it was based on optimistic assumptions which are not being met; on the other hand, actual winning prices went much higher than the reserve price due to an "absence of choice" as explained below –

- a) In the 2014 and 2015 auction of 900 MHz, the holders of 900 MHz band had no choice as not bidding for that spectrum meant that the operations and network built in the respective circles over 20 years would have to be closed. This coupled with the auction

design resulted in operators being forced to pay 1.91 times of the already high reserve price.

- b) In some circles where 1800 MHz was in short supply and operators bid for 1800 MHz as a means of continuing operations, the final bid price also went as high as 1.68 times the reserve price in some circles.
- c) Hence, the forced bidding for 900 MHz in all circles and 1800 MHz in some circles in the earlier auctions of 2014 and 2015 is largely responsible for the current high leverage of telecom operators and the prices paid do not represent the economic value of spectrum. Subsequent setting up of spectrum prices based on the unrealistic high price of 1800 MHz further compounded the problem.
- d) It is also noteworthy that in the auction held last October, the government could manage to sell only 964.80 MHz of spectrum in various frequency bands as against the 2,354.55 MHz airwaves put up for auction. At the end of the five-day auction, nearly 60 per cent of the spectrum remained unsold mainly due to high reserve price, including the expensive 700 MHz band, which found no takers and for which **there was not even a single bid.**

7. In addition to this, while the revenue has been much lower than projections, actual traffic has turned out to be significantly higher than projections, thereby increasing the capex levels.

	TRAI Projections		Actual		Difference %	
	Voice minutes (mn)	Data Volume (mn MB)	Voice minutes (mn)	Data Volume (mn MB)	Voice minutes	Data Volume
<b>FY15</b>	4,091,780	802,998	4,194,000	939,456	2.5%	17.0%
<b>FY16</b>	4,255,451	1,002,142	4,479,024	1,544,904	5.3%	54.2%
<b>FY17</b>	4,404,392	1,203,171	4,842,552	7,548,684	9.9%	527.4%
<b>FY18*</b>	4,536,524	1,437,549	6,041,196	17,656,704	33.2%	1128.3%
<b>FY19</b>	4,649,937	1,650,306				
<b>FY20</b>	4,742,936	1,885,310				

*\*FY18 is based annualised Q1FY18 figures*

It is clear that given this state of affairs, the operators are finding it challenging to fund earlier spectrum payments, and the business case made out earlier for the spectrum won in previous auctions has already failed. **Further considering the current industry scenario of below cost pricing and hyper-competition, there exists no business case for acquisition of any more**

spectrum. In fact, given such a situation, the Authority ought to consider price corrections for the already auctioned spectrum to help lessen the current and future burden on the ailing sector.

8. In conclusion, we would like to submit the following:

- a. The TRAI being the sector Regulator ought to urgently look at ways and means to address the various issues this sector is facing, including resolving the legacy issue of high price of spectrum committed by the operators where there are no returns on investments due to drastic change in industry revenue trends compared to those used for setting up Spectrum reserve price.
- b. It is clear that given the current industry scenario, the operators are now finding it a challenge to fund existing spectrum payments, and the business case made out earlier for the spectrum won in previous auctions has already failed.

Further considering the current industry scenario of below cost pricing and hyper-competition, there exists no business case for acquisition of any more spectrum.

Hence, given the current background, the timing for this Consultation is inappropriate.

We hope our submissions will merit your kind consideration.

Thanking you,

For IDEA Cellular Limited



Rahul Vatts

Senior Vice President – Regulatory & Corporate Affairs

Cc :

- 1) Sh. R.S.Sharma, Chairman, Telecom Regulatory Authority of India, New Delhi – 110 002.
- 2) Sh. Anil Kaushal, Member, Telecom Regulatory Authority of India, New Delhi – 110 002.
- 3) Sh. H.Pradeep Rao, Member, Telecom Regulatory Authority of India, New Delhi – 110 002.
- 4) Sh. S.K.Gupta, Secretary, Telecom Regulatory Authority of India, New Delhi – 110 002.
- 5) Sh. U.K.Srivastava, Principal Advisor (NSL), Telecom Regulatory Authority of India, New Delhi-2