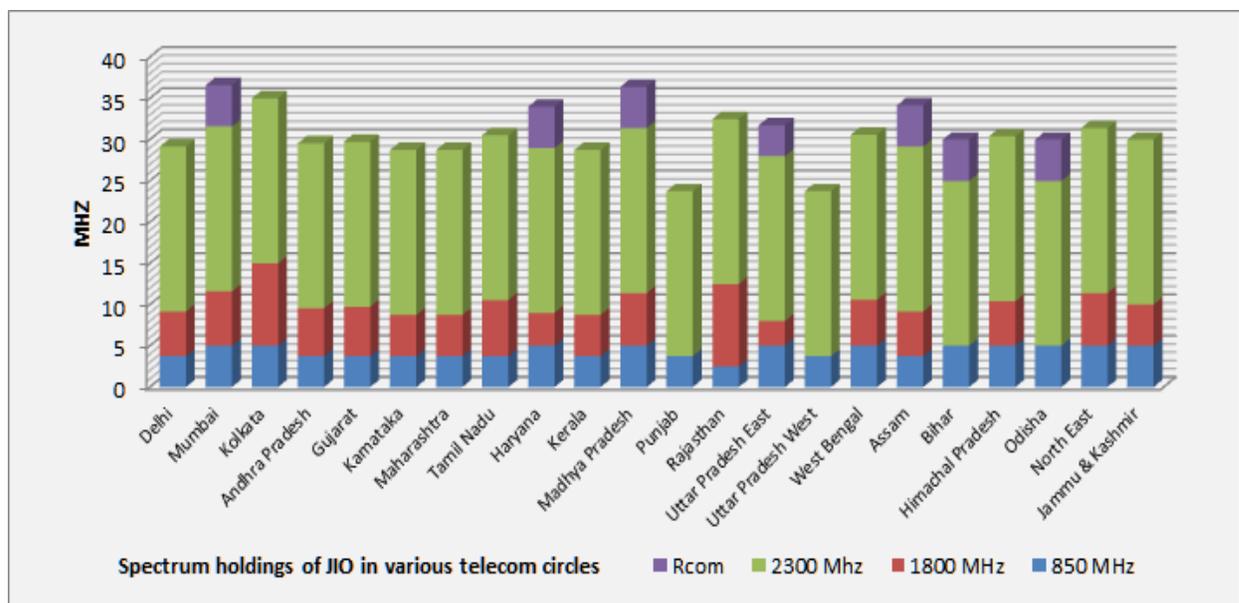


Telecom sector set for a major churn; the JIO impact

JIO: a startup with a PAN India umbrella of 4G spectrum

Reliance JIO is being touted as one of the world's largest start-up, and rightly so, with an initial investment of around Rs.1,50,000 crore, it is one of the largest green-field digital initiatives. This journey is almost six years in making, with Reliance Industries Limited buying 96% stake in Infotel Broadband Services Limited (IBSL) for Rs.4,800 crore in June 2010 which had won the BWA spectrum in all 22 telecom circles in the spectrum auctions that took place earlier in that year. JIO now owns spectrum in 1800-MHz band in 18 circles, and also owns pan-India 850-MHz and 2,300-MHz spectrum (*please refer Graph 1*). In order to further strengthen its spectrum portfolio, JIO also entered into a spectrum-sharing deal with Mr Anil Ambani-led Reliance Communications for 850-MHz band across seven circles. This way JIO has strengthened its passive infrastructure which is the key and the reason that it can compete with well-established telecom players and offer high-speed of data and voice calls.



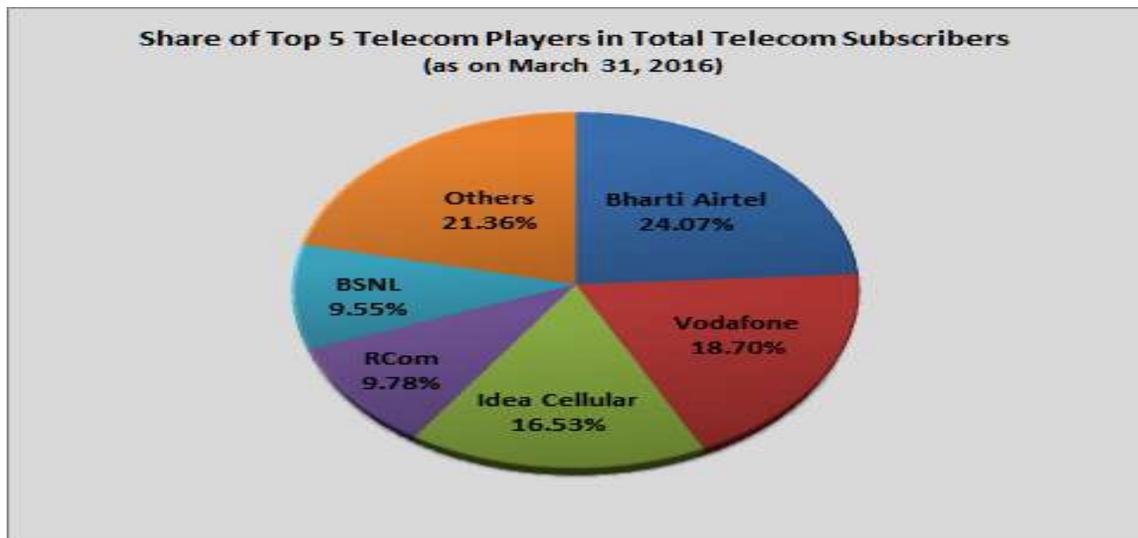
Graph 1, Source: CARE

Challenging time for the incumbents

The company has launched its commercial services from September 05, 2016, with very lucrative offers which included free lifetime voice calls and roaming services for its users along with data charges at about one-tenth of the prevailing rates reversing a few well set trends of the Indian telecom industry.

The sector is all set to see a lot of churning in the coming months with the incumbent operators trying new and innovative strategies to retain their market share. The entry of JIO is certain to put pressure on the tariffs at a time when capital expenditure for incumbents was expected to increase with the upcoming spectrum auction wherein the incumbents were under pressure to beef up their spectrum holding to

counter the issue of call drops and other network quality issues. The much-discussed consolidation in the sector which was already underway is expected to gain further momentum with the smaller players likely to be looking for exit options at their desired valuations.



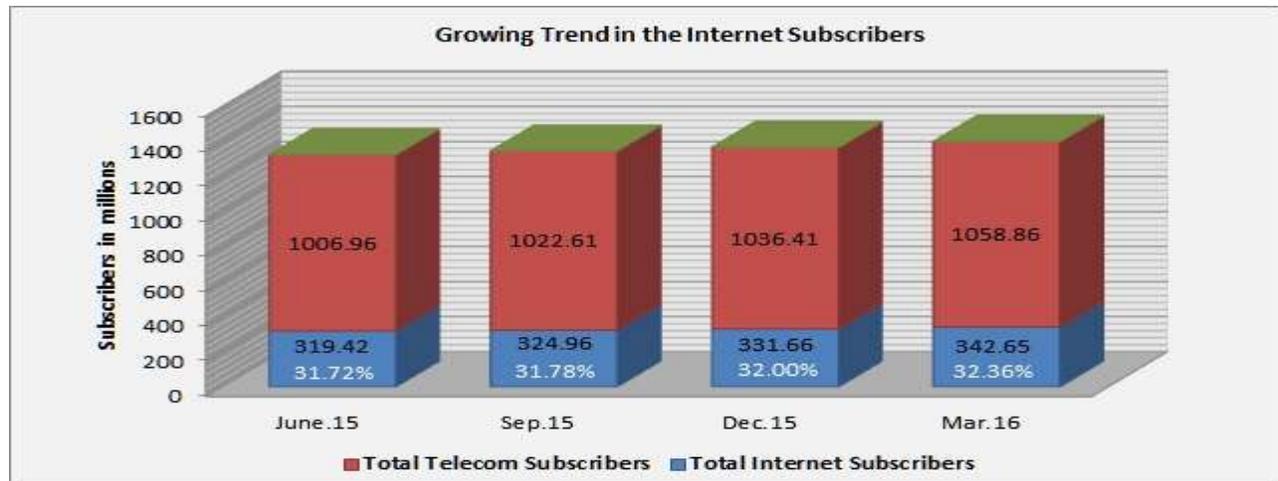
Graph 2, Source: TRAI Report

JIO, with its offers which are primarily of the nature of offering a significant amount of data at a fixed price and topping it with loads of freebies which include free voice calls, might make the sector move towards the “data-only plans”, making voice and text messages cheaper or almost free. This could be particularly disruptive for the incumbents, as most of the leading operators still derive majority of their revenues and profits from voice and text messages (~70%) leading to a weakening of their operating performance, a slowdown in revenue growth and a decline in the profitability margins. Among the incumbents, the smaller players with relatively weak data footprint will be the worst affected as they are unlikely to be able to replicate JIO's aggressive offers, and hence would eventually cede revenue and market share to the new 4G entrant. The larger players are, however, likely to formulate a new pricing strategy with attractive internet data offers over the next few months to protect their market share, although that is likely to lead to their ARPUs coming under pressure. There will also be a definite recalibration of their business plans for each telecom circle based on their competitive position and it will also have an impact on the spectrum auction which is scheduled to begin next month in October. The auctions may be a bit muted this time as the operators may look at other options including spectrum-sharing deals in a more focused manner.

Looming transformation in the data consumption habits?

The entry of JIO with tantalizingly affordable data tariffs, however, will surely accelerate the data adoption in India. The company has kept the price of its 4G handset very competitive and with the perceived superior quality of services driven by its huge investment in network infrastructure is expecting that people will be encouraged to embrace its offerings in a big way. JIO, however, with its low data tariffs also needs to ensure that along with a mass adoption of its 4G services across circles, there is a good amount of consumption of various forms of digital content to help it to generate a healthy return on the capital employed by the company. This will also have a positive impact on the content developers as they are expected to see a big upsurge in the demand for their products which is positive for the industry as a whole.

As against the need-based usage pattern which is being seen currently wherein the consumer used to use its internet pack for viewing multimedia contents, streaming services or finding a GPS location, the unlimited data with JIO services might also change the consumption habits of people and thereby increase the average data consumption per user.



Graph 3, Source: TRAI Report

After effect in the mobile handset industry

The launch of JIO will not only impact the service providers but will also have a significant impact on the mobile handset industry. The company had launched Lyf branded smartphones along with preview offer for its customers, under which it offered unlimited high speed data, voice and a bouquet of app-based digital content. As per market estimates, Lyf has been among the top 5 shipped brands in the smartphone market for the past two quarters and is expected to stay strong with the official launch of services of JIO. In addition, JIO has also tied up with several smartphone players to offer its connection along with the smartphone, which will also help in bringing the prices of smartphones further down.

The journey forward for the JIO

However, the journey for JIO from here onwards will not be without challenges. The incumbents with a very strong competitive position will be modifying their strategies to counter the new challenge with their own tariff plans. In addition to these players, BSNL has also announced that it expects to match the intense competition to be given by JIO with “tariff-by-tariff” which might also pose challenge for JIO’s WIFI plans as BSNL has more than 250,000 Kms of optic fibre cable already operational across India. JIO, on the other hand with its attractive tariff plans will need to scale up its operations at a very rapid pace to ensure that it is continued to be taken as serious challenger. The company has spent a lot of time on ground work to make sure that it doesn’t face any glitches in its network quality; however; the real performance on the ground will only give an indication about how successful its efforts have been. A good customer experience for its new subscribers will be a force multiplier in its efforts to scale up its operations and will depend upon its ability to offer a quality customer interface at its outlets as well as its customer support. The company is facing some teething issues in form of the interconnection row and issues related to MNP which have been

going on between the JIO and incumbent operators which is having an adverse impact on its services. JIO's ability to overcome such challenges will determine how successful it gets in this battle of acquiring subscribers. As the battle lines are drawn in this struggle for gaining subscriber base, there is a strong likelihood that the weaker players may consolidate with JIO which will help the company in pooling the resources and offer strong network coverage for its subscribers. Although, the sector is now looking at the next few quarters with apprehension, as the profitability margins and revenues of the service providers will remain under pressure and sustainability of weaker players will be under stress. The consumers are, however, not complaining, and ultimately, it is the Indian telecom subscriber who will be benefitting and enjoying these world class services at very competitive rates.

Annexure: Outstanding Ratings on Telecom Service Providers

<u>Service Provider</u>	<u>Outstanding Ratings</u>
Aircel (includes Aircel Limited, Aircel Cellular Limited and Dishnet Wireless Limited)	CARE A- (SO)
Bharat Sanchar Nigam Limited	CARE AAA (SO)
Idea Cellular Limited	CARE AA+/ CARE A1+
Mahanagar Telephone Nigam Limited	CARE AAA (SO)
Reliance Communication Limited	CARE A-/ CARE A2+
Reliance JIO Infocomm Limited	CARE AAA/ CARE AAA (SO)/ CARE A1+
Tata Teleservices Limited	CARE A/ CARE A1+
Tata Teleservices (Maharashtra) Limited	CARE A/ CARE A1

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