

Telecom Update: December 2020

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Contact:

Madan Sabnavis
 Chief Economist
 madan.sabnavis@careratings.com
 91-022-6837 4433

Author

Bhagyashree C. Bhati
 Deputy Manager – Industry Research
 bhagyashree.bhati@careratings.com
 +91-22-6837 4407

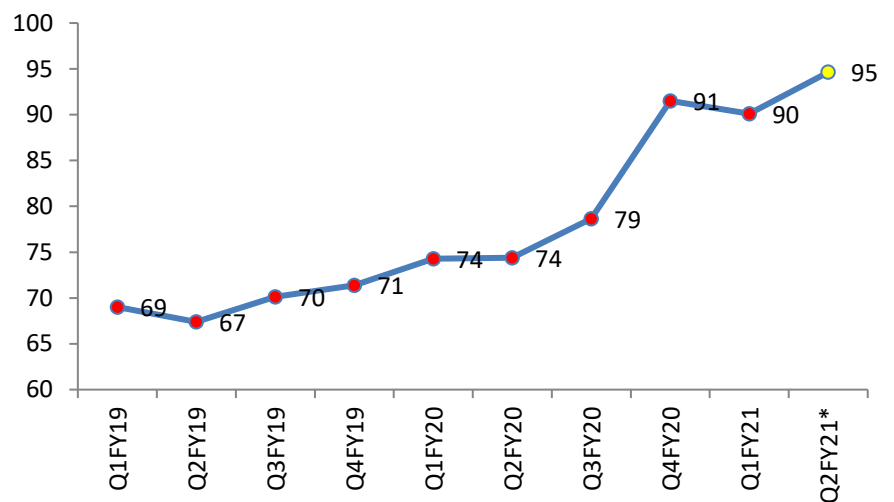
Mradul Mishra (Media Contact)
 mradul.mishra@careratings.com
 91-22-6754 3573

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Trend in industry ARPU

The telecom industry’s Average Revenue per User (ARPU) touched Rs.90 (y-o-y growth of 28.2%) mark in the March 2020 quarter after a long gap of 12 quarters. This was primarily backed by price hikes (up to 40%) undertaken by the telcos for its prepaid users from the month of December 2019 onwards. On a sequential basis, the ARPU increased by 16.3% in the March 2020 quarter.

Chart 1: Trend in industry ARPU (in Rs.)



Source: TRAI

Note: * indicates estimate by CARE Ratings

During the first quarter of FY21, the industry maintained the ARPU range of Rs.90 (though it fell marginally by 1.5% on q-o-q basis, it increased 21.8% on y-o-y basis) which is estimated to have improved 5% sequentially to Rs.95 in the following Q2FY21.

Telecom industry’s performance indicators in Q1FY21

The double-digit improvement was seen not just at the ARPU level but was also witnessed for data usage and charges in Q1FY21. In fact, average data usage touched an all-time high of 12.2 GB in the June 2020 quarter on account of growth in data consumption backed by increased use of online applications and new norms of ‘work from home’ and ‘higher use of digital platforms’ on account of Covid-19 pandemic. Also, average data charges for per GB data shot up by 37% to Rs.10.6 aided by price hikes.

It is to be noted that revenue from data usage now accounted for a much larger share of 77% in the total revenues from subscribers in the June 2020 quarter compared to the share of 22.1% the June 2016 quarter (4 years ago when Reliance Jio had not entered the telecom market). Reliance Jio had started offering telecom services from 5th September 2016 onwards.

Table 1: Industry’s performance indicators in Q1FY21

	Q1FY20	Q1FY21	% change (y-o-y)
Average outgo per GB data (in Rs.)	7.7	10.6	37.0
Average data usage per subscriber per month–GSM (in GB)	9.8	12.2	24.4
Telephone subscribers base (as on August 2020) (in million)	1192	1168	-2.0
Broadband subscribers base (as on August 2020) (in million)	615	716	16.5

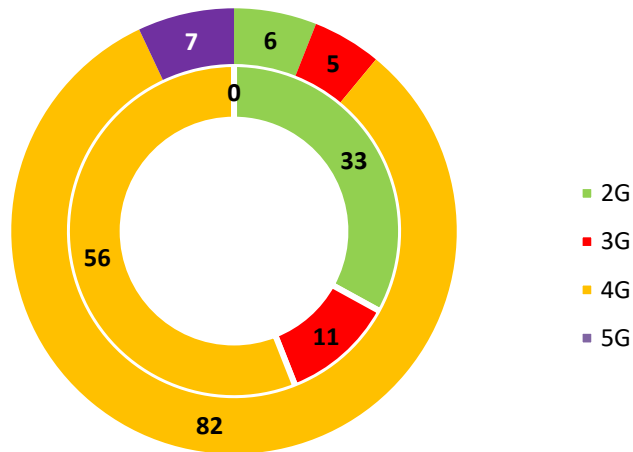
Source: TRAI

The low-priced service and increased use of online applications added more subscribers to the broadband base. The broadband subscriber base grew by 16.5% y-o-y to 716 million at the end of August 2020. The telephone subscriber base, however, declined by 2% to 1,168 million as on August 2020.

Technology mix for Indian network connections

For the year 2019 in terms of subscribers’ base, 2G subscribers accounted for 33% of the total subscribers base or connections. The 3G subscribers had a small share of 11% compared to 2G and 4G users as the telecom companies continued with the activity of upgrading 3G subscribers to 4G subscriber base. Resultantly, the 4G subscribers had the highest share of 56% in the total subscriber base during 2019.

Chart 2: Technology mix for Indian network connections



Note: Inner circle indicates technology mix for 2019 and outer circle indicates technology mix estimates for 2025

Source: GSM Association

With increase in data usage and the industry’s continued efforts to upgrade the subscriber base, the 4G subscriber base is estimated to augment to 82% in 2025 as per GSM Association and the 2G and 3G subscriber base is expected to contract to 6% and 5%, respectively, during the year. On the other hand, there is an estimated addition of a new set of subscriber base (5G subscribers with a share of 7%) in 2025. However it remains to be seen if India exceeds, meets or remains below these

5G estimates given the current critical situation of the Indian telecom industry which delays the launch of 5G in India in the near future.

Challenges faced by the telecom industry

- **Cut in license fee and Spectrum Usage Charges (SUC)**

As per the current norms, the telecom companies pay 8% of the adjusted gross revenues (AGR) as license fee and 3-5% of the AGR as SUC which the industry has been seeking for a reduction from the current levels.

- **Intense competition and AGR issue**

The industry has been witnessing intense competition for the past 4 years since September 2016 with the entry of Reliance Jio in the telecom market. Even while the ARPU levels have witnessed an improvement now (Rs.90 in the June 2020 quarter), they tend to be lower than the ARPU levels of Rs.124 in FY16 which the incumbent players term as unsustainable. In addition to this, the acceptance of new definition of AGR in October 2019 created more problems for the telecom sector. To deal with this, the court announced and allowed staggered payments towards settlement of AGR dues over 10 years period starting 1 April 2021 (on 1 September 2020). Also, the SC asked telcos to pay 10% of AGR associated dues by 31 March 2021. Despite this, with the current levels of industry ARPU, the telcos will find it difficult to make the payment in 10 years timeline.

- **Higher spectrum prices**

The reserve price suggested by TRAI for bands that could be used for deployment of 5G technology did not find much support from the industry due to its higher price. Also, the incumbents that are dealing with the issue of AGR payments are likely to move at a slow pace with their investment plans towards 5G with the current low ARPU level and the nascent ecosystem for 5G.

- **Non-procurement of telecom equipments from China**

In June 2020, the government asked the state-owned telcos BSNL and MTNL to not consider China for procurement of telecom equipments to upgrade their networks to 4G due to tensions between India and China. However, no such instruction has been given to the private operators so far. In case any such announcement comes from the government, it will increase the procurement cost for the private telcos which are already facing challenges as discussed above.

In addition to this, another limitation faced by the telecom industry recently is the sharp fall witnessed by the sector in the Foreign Direct Investment (FDI) equity inflow in H1FY21 which plunged by 99.8% to Rs.50 crore (USD 7 million) during April-September 2020 from Rs.14,899 crore (USD 2,178 million) in the same period last year.

It is to be noted that the FDI equity inflow had averaged at Rs.25,552 crore (USD 3,832 million) during the past 4 years H1FY17 to H1FY20. Apart from Covid-19 induced weak international economic and investment environment, the above mentioned challenges faced by the telecom industry is also believed to have hurt the FDI equity inflows in the sector.

Concluding remarks

The telecom industry's prime focus now is to improve the current ARPU levels which will be backed by increased use of online applications and new norms of 'work from home' and 'higher use of digital platforms' on account of Covid-19 which

will support the industry ARPU. The industry, however, continues to face challenges in terms of certain levies (license fee and SUC), intense competition and AGR issue, higher spectrum prices (primarily for 5G technology) and apprehensions of non-procurement of telecom equipments from China for private telcos. These challenges are also believed to have hurt the FDI equity inflows in the sector during H1FY21 in addition to Covid-19 induced weak international economic and investment environment.

CARE Ratings Limited

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022. CIN: L67190MH1993PLC071691
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457
E-mail: care@careratings.com | Website: www.careratings.com

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