

2G Auctions – Missing Firework

In the last couple of years, Indian telecom sector has been affected by the ongoing policy paralysis and regulatory overhang. In February 2012, the Supreme Court of India cancelled 122 telecom licenses issued in 2008 when spectrum was allotted bundled with a license, allocated on a first-cum-first-serve basis. The Supreme Court's order paved the way for auction-determined pricing for spectrum going forward. As directed by the Apex Court, TRAI came out with a base price for the available spectrum which was more than 10 times expensive than the price paid earlier by the operators. Subsequently the Empowered Group of Ministers lowered the reserve price by around 20%, which is still higher for the debt-ridden telecom operators struggling to bring their bottomline in green.

The 2G auctions held during 12-14 November, 2012, witnessed a lukewarm response. **Following are the key highlights of the auctions:**

- There was no bidder for spectrum in the CDMA space.
- In the GSM space, out of the proposed 390 MHz of spectrum sale, only 35% was sold in the auction process. Key circles like Delhi, Mumbai, Karnataka and Rajasthan witnessed no takers.
- Out of the 11-12 players in each circle, only 5 turned up for the auctions. There was no pan-India bidder.
- Out of the 18 circles that witnessed the bids, winning price did not exceed the reserve price in 17 circles. Winning price exceeded by 9% in the Bihar circle.
- Government could mop-up only Rs. 94 billion out of the total target of Rs. 400 billion. Even the Rs. 94 billion of payment will be paid in a staggered manner.
- Government is planning to re-auction the remaining unsold spectrum before the end of FY 2013.
- The Supreme Court of India has asked the government to clarify why the entire spectrum cancelled during Feb. 2012 was not put for auction.
- The auctions turned out to be a non-event for incumbent operators like Bharti that applied for one block that too in Assam circle and other players like Rcom, Tata Teleservices, Aircel, BSNL, MTNL stayed away from the auctions. The only incumbent player that participated aggressively was Vodafone, which acquired spectrum in 14 circles.

- Telewings' was very selective in the bidding as it applied for only 6 circles from its earlier indication of 9 circles. Idea regained its cancelled spectrum in 7 circles and applied for one block in Bihar circle.
- Videocon applied for spectrum in 6 circles, 4 of which lie in Category B, leading to lower cash outgo as compared to Telewings.

Results of Spectrum Auction (Nov. 2012)						
Operator	Circles in which operator participated in the auction				Total Circles	Payout (Rs. Mn)
	Metro	Circle A	Circle B	Circle C		
Telewings		3	2	1	6	40,183
Videocon		1	4	1	6	22,214
Idea	1	1	1	5	8	20,313
Vodafone		1	7	6	14	11,279
Bharti				1	1	87
Total	1	6	14	14	35	94,076

Source: DoT, TRAI and CARE Research

2G Auction Paves the way for Consolidation

The higher reserve price of Rs. 140 billion for 5 MHz spectrum compared to Rs. 16.5 billion paid by the operators in 2008 proved to be an inhibitor, attracting far lower number of bids than expected. Out of the 8 telecom operators whose licenses were cancelled by the apex court, Etisalat and S-Tel decided to shut their shops in India whereas only Telenor (under the new name 'Telewings'), Videocon and Idea decided to participate in the auction. Tata Teleservices, Loop Telecom and Sistema refrained from the auction process. Also, the new participants Telewings and Videocon limited their bids to 6 circles each, none of which was in Metro circles.

Competitive Landscape - Number of Players in the GSM Space												
Category	Circle	Bharti	Vodafone	BSNL/ MTNL	Idea	Aircel	Reliance	Loop	HFCL	Vide ocon	Tele wings	Total
Metros	Delhi	✓	✓	✓	✓	✓	✓					6
	Kolkata	✓	✓	✓	✓	✓	✓					6
	Mumbai	✓	✓	✓	✓	✓	✓	✓				7
Circle A	AP	✓	✓	✓	✓	✓	✓				✓	7
	Gujarat	✓	✓	✓	✓	✓	✓			✓	✓	8
	Karnataka	✓	✓	✓	✓	✓	✓					6
	Maharashtra	✓	✓	✓	✓	✓	✓				✓	7
	TN	✓	✓	✓	✓	✓	✓					6
Circle B	Haryana	✓	✓	✓	✓	✓	✓			✓		7
	Kerala	✓	✓	✓	✓	✓	✓					6
	MP	✓	✓	✓	✓	✓	✓			✓		7
	Punjab	✓	✓	✓	✓	✓	✓		✓			7
	Rajasthan	✓	✓	✓	✓	✓	✓					6
	UP (E)	✓	✓	✓	✓	✓	✓			✓	✓	8
	UP (W)	✓	✓	✓	✓	✓	✓			✓	✓	8
	WB	✓	✓	✓	✓	✓	✓					6
Circle C	Assam	✓	✓	✓	✓	✓	✓					6
	Bihar	✓	✓	✓	✓	✓	✓					6
	HP	✓	✓	✓	✓	✓	✓			✓	✓	8
	J&K	✓	✓	✓	✓	✓	✓					6
	NE	✓	✓	✓	✓	✓	✓					6
	Orissa	✓	✓	✓	✓	✓	✓					6
Total		22	22	22	22	22	22	1	1	6	6	146

Source: DoT, TRAI and CARE Research

Concluding Remarks:

- This auction ascertained that the operators are not willing to buy the spectrum at any price unlike the previous 3G and BWA auctions, which might force the government to rethink while pricing the future auctions in 900 MHz while refarming and also during other auctions.
- Limited participation and modest spends by the operators are good for the industry which is yet to recover from the debt burdens of 3G and BWA auction outgo. Except one circle, there was no over-bidding over and above the reserve price.
- Failed bids in the Delhi, Mumbai, Karnataka and Rajasthan circles will lead to no price discovery for the spectrum in those circles which will be a hurdle for the refarming and one-time fees. Government will have to re-think on reducing the reserve price in these circles if it wants to attract bids in these circles in the next round of auctions.
- Selective participation by the new entrants would lead to highly awaited consolidation in some of the circles reducing the price war that eroded the profitability of the telecom industry.
- Government failed to achieve its fiscal target of Rs. 400 billion of cash inflow from the spectrum auctions. Considering the staggered payment with only 1/3rd payment expected in the 1st year and outgo related to refund of fees from 2008 allocation of licenses, government is expected to garner insignificant amount in the first year.
- The Supreme Court has asked for clarification on why the government did not auction the available spectrum pertaining to cancelled licenses. Also, there are few other pending litigations like the curative petition filed by Sistema.

Appendix I

Results of Spectrum Auctions held in Nov. 2012										
	Circle	Reserve Price Rs. Mn/ block	Auction- ed Slots	Winning Bids Rs. Mn/ block	Amount to be paid (Rs. Mn)					Total
					Telewings	Videocon	Idea	Vodafone	Bharti	
Metros	Delhi	6,931								
	Kolkata	1,137	4	1,137			4,548			4,548
	Mumbai	6,785								
Circle A	AP	2,869	4	2,869	11,476					11,476
	Gujarat	2,248	8	2,248	8,994	8,994				17,984
	Karnataka	3,301								
	Maharashtra	2,628	5	2,628	10,512			2,628		13,140
	TN	3,061	4	3,061			12,244			12,244
Circle B	Haryana	465	6	465		1,861		930		2,790
	Kerala	653	1	653				653		653
	MP	540	6	540		2,160		1,080		3,240
	Punjab	673	1	673				673		673
	Rajasthan	671								
	UP (E)	762	9	762	3,047	3,047		762		6,858
	UP (W)	1,074	10	1,074	4,296	4,296		2,148		10,740
	WB	258	7	258			1,292	517		1,806
Circle C	Assam	87	7	87			347	173	87	609
	Bihar	425	11	464			464	929		5,104
	HP	78	1	78	1,857	1,857		78		78
	J&K	63	6	63			253	127		378
	NE	88	6	88			354	177		528
	Orissa	203	6	203			811	405		1,218
Total		35,000	102	-	40,182	22,214	20,313	11,279	87	94,076

Source: DoT, TRAI and CARE Research

Appendix II

Summary of Existing and New Spectrum held by the Participants																	
Category	Circle	Bharti			Idea			Vodafone			Telewings			Videocon			
		Spectrum (MHz)															
		Existing		New	Existing		New	Existing		New	Existing		New	Existing		New	
		900	1800	1800	900	1800	1800	900	1800	1800	900	1800	1800	900	1800	1800	
Metros	Delhi	8	2			8			8	2		-	-		-	-	
	Kolkata		9.2				5		8	2		-	-		-	-	
	Mumbai	6.2	1.8			4.4			7.8	2		-	-		-	-	
Circle A	AP	7.8	2.2		6.2	1.8				6.2			-	-	5	-	-
	Gujarat		6.2		6.2				7.8	2			-	-	5	-	-
	Karnataka	7.8	2.2		6.2					8			-	-		-	-
	Maharashtra		8.2		7.8	2			6.2		1.25		-	-	5	-	-
	TN	6.2	3				5		6.2				-	-		-	-
Circle B	Haryana		6.2		6.2				6.2		2.5		-	-		-	-
	Kerala		6.2		6.2	1.8			6.2		1.25		-	-		-	-
	MP		8		6.2	1.8				4.4	2.5		-	-		-	-
	Punjab	7.8			7.8					6.2	1.25		-	-		-	-
	Rajasthan	6.2	2			6.2			6.2				-	-		-	-
	UP (E)	6.2	1			6.2			6.2	2	1.25		-	-	5	-	-
	UP (W)		6.2		6.2	1.8			6.2		2.5		-	-	5	-	-
WB	4.4	1.8				6.25		4.4	1.8	2.5		-	-		-	-	
Circle C	Assam	1.8	4.4	1.25			5			4.4	2.5		-	-		-	-
	Bihar	6.2	3			4.4	1.25			4.4	2.5		-	-	5	-	-
	HP	6.2				4.4				4.4	1.25		-	-		-	-
	J&K	6.2					5			4.4	2.5		-	-		-	-
	NE	4.4	1.8				5			4.4	2.5		-	-		-	-
	Orissa	6.2	1.8				5			4.4	2.5		-	-		-	-
Total		91.6	77.2	1.25	59	42.8	37.5	79.4	63	28.8				30			30

Source: DoT, TRAI and CARE Research

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