

New telecom policy to determine the way forward for the telecom sector

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Over the past decade, the Indian telecom sector has grown significantly and has emerged as the second largest in the world in terms of subscriber base and a major contributor to the country's economy. However, over the past two years, regulatory uncertainties combined with a deteriorating operating and financial environment have slowed down the growth momentum of the sector, as is evident from the decline in the growth of net subscriber additions and revenues. The monthly net subscriber additions fell starkly to 2.97 million in November 2011 as compared to 20.21 million in March 2011. Further, the total revenues of the telecom services sector also grew by only about 4% and 8% in FY10 and FY11 respectively as compared to a growth of about 22% and 18% in FY08 and FY09 respectively.

The telecom sector in its present state is characterized by intense competition due to a highly overcrowded market, significantly low tariffs, falling Average Revenue Per User (ARPU) and Minutes of Usage (MoU) and high operating and regulatory costs. Moreover, the capital structure of most of the operators is strained, owing to the significant debt raised by them for the 3G and Broadband Wireless Access (BWA) spectrum auctions. Also, despite the significant untapped potential offered by the sector, the operators have slowed down their capital expenditure plans due to the lack of regulatory clarity and transparency, which has also impacted the investments within the sector.

In view of these concerns, Government of India announced the New Telecom Policy 2011 (NTP 2011), a draft of which was released in October 2011 which aims at dealing with the various issues plaguing the sector pertaining to spectrum allocation, utilization and refarming and policy of mergers and acquisitions. NTP 2011, which is expected to come into effect in the second half of 2012, also proposes to introduce certain regulatory and policy changes which include allowing spectrum sharing and trading, delinking spectrum allocation from the licences and removal of national roaming charges, amongst others. The policy also proposes to focus on improvement of broadband penetration within the country, which is at present significantly low at around 1%. However, despite the uncertainties faced by the sector, CARE expects the operating performance of the incumbent operators to improve in the medium term, as a result of the hike in tariffs by about 20% by most of the operators. This is expected to result in the emergence of a stable and rational pricing structure for the sector in the long run. CARE also envisages increased contribution of Value Added Services (VAS) to the total revenues of the operators with the shift in focus towards next-generation technologies and the growing demand and affordability of smart phones within the country. VAS currently contributes about 10-15% to the total revenues of an operator, which is expected to increase to about 20-25% in the next 2-3 years.

The short-term credit outlook for most of the operators however remains muted due to the ongoing regulatory uncertainties, strained capital structure, significantly low tariffs and high operating costs due to which most of the operators are likely to continue incurring operating losses in FY12 despite an improvement in the revenues due to hike in tariffs. The short-term issues of the operators are further aggravated by the decline of fund-raising options with the reluctance of the banks in lending to the sector and the decline in the Foreign Direct Investment (FDI) inflows. In the second half of 2012, with the implementation of the NTP 2011, clarity is likely to emerge on several key regulatory issues, post which the credit outlook of the operators may stabilize. Certain measures like the proposed introduction of spectrum renewal charge, which, if fully implemented may result in greater outflow particularly for the incumbent operators. Nevertheless, various regulatory changes on the anvil are expected to help stabilize the sector and bring about the much-needed consolidation. This, along with the improvement in the operational performance of the operators should have a positive impact on the sector as a whole in the medium to long term.

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