

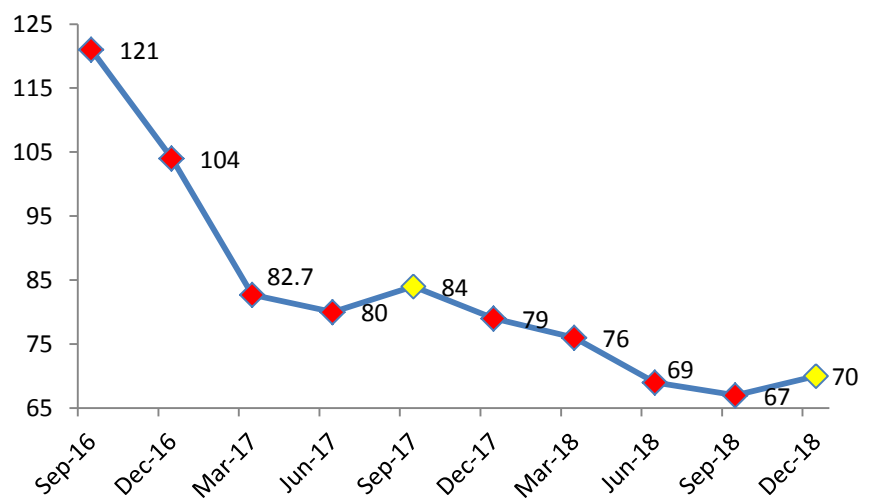
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Telecom Update: ARPU sees sequential growth in December 2018 quarter

Average Revenue per User (ARPU) increases in the December 2018 quarter on a q-o-q basis

The industry ARPU improved sequentially for the first time after a gap of 4 quarters in the December 2018 quarter. The increase in ARPU was primarily on the back of introduction of minimum recharge plans by the incumbent telecom players.

Chart 1: Trend in ARPU (in Rs.)



Source: CMIE

The ARPU of the telecom industry has been on a constant decline on a y-o-y basis since the introduction of cheap data services by the new entrant in September 2016. Also, the ARPU fell sequentially in each of the quarters except for the September 2017 quarter and the December 2018 quarter where the ARPU increased on a q-o-q basis.

Price war due to cheap data services and fierce competition among the telecom service providers is responsible for the downtrend in the industry's ARPU.

Need for introduction of minimum recharge plans

The prime reason for the introduction of minimum recharge plan is the consistent fall in data ARPU when the share of revenue from data in ARPU is on a rise. While the share of revenue from data usage increased to 53% in ARPU during the December 2018 quarter compared to the share of 21.6% in the December 2016 quarter, the average data ARPU fell by a sharp 93.4% to Rs.10.5 per GB in the December 2018 quarter against Rs.160 per GB data in the December 2016 quarter.

The significant increase in the share of data revenue in ARPU is on account of a surge in volume of data usage. The data usage per

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subscriber per month which averaged at 0.88 GB in the December 2016 quarter jumped by 893% to 8.74 GB in the December 2018 quarter due to cheap data prices. The data prices in India are the lowest in the world.

Table 1: Indicators for the telecom industry

Indicators	December 2016 quarter	December 2017 quarter	December 2018 quarter
Revenue from calls in ARPU	45.7%	26.4%	12.4%
Revenue from data usage in ARPU	21.6%	39.7%	53.0%
Average data usage per subscriber per month	0.88 GB	2 GB	8.74 GB
Average outgo per GB data	Rs.160	Rs.18.9	Rs.10.5

Source: TRAI

While data ARPU continues to remain weak, the volume of data usage tends to be on a rise. This requires the telcos to manage more data traffic with lower revenues from data which, in turn, has hurt the revenues and profitability of the telecom industry. Managing more data traffic increases telcos' network costs.

Financials of the telecom industry

Chart 2: Sales growth rate (in %)

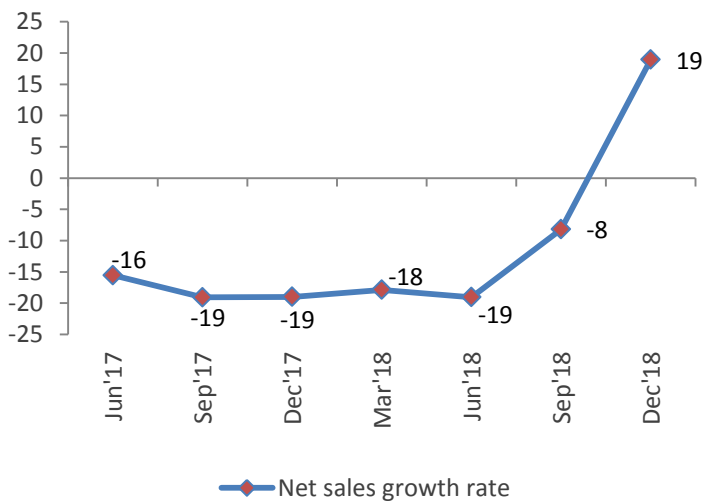
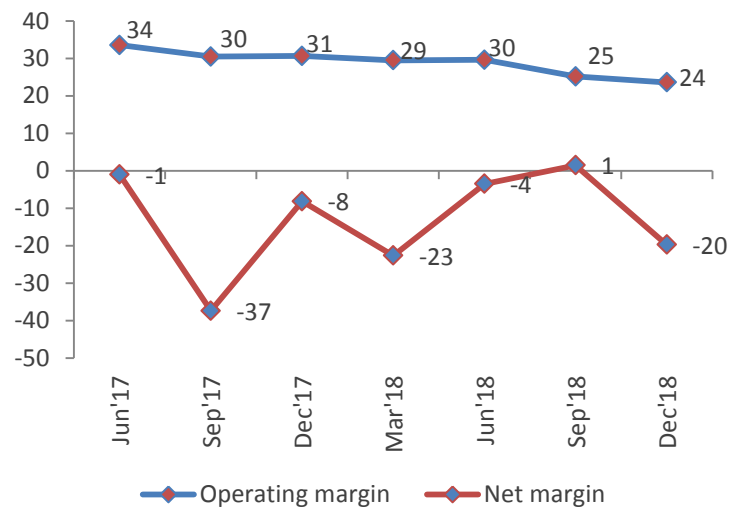


Chart 3: Operating and net profit margin (in %)



Source: Ace Equity

Note: The financials of the industry are based on the aggregate results of 9 companies

Note: The merger of Vodafone India with Idea cellular was completed on August 31, 2018. Thus, the industry figures for the September 2018 quarter and December 2018 quarter are not comparable with the earlier periods.

The telecom industry's revenues and profit margins have been hit post the entry of the latest player in September 2016. Free schemes and cheap data services offered by the company resulted in intense competition among the players. Subsequently, the incumbents also had to offer services at low prices in order to retain customers which, in turn, impacted the industry's revenue growth and profitability as can be seen from the above charts.

The industry's sales declined in double digits in each of the quarters during the period June 2017 quarter to June 2018 quarter on a y-o-y basis. Also, the industry made losses at the operating level and the industry's net margin remained in the range of 29%-34% during the period.

Why has the share of revenue from calls declined in ARPU?

The share of revenue from calls fell in ARPU with the introduction of cheap data services by the new entrant in September 2016. The new player made use of 4G VoLTE technology to offer services which allows subscribers to use internet or data plans to make calls, send SMS or browsing internet. The offering of cheap data services by the new entrant forced the incumbents to provide these services at inexpensive rates to retain the subscribers.

The incumbents therefore started offering bundled plans that provides voice and data services in the same plan. This, in turn, increased the usage of data thereby restricting the revenues from voice call segment.

Minimum recharge plans

To restrict the fall in revenues and to increase the ARPU, the incumbents introduced the concept of minimum recharge plan. The minimum recharge plans starting from Rs.35 with a validity of 28 days were introduced by the incumbents in the December 2018 quarter at pan India level. The aim of the minimum recharge plan is to retain the revenue generating subscribers and to discontinue with the incoming-only customers or the minimal ARPU customers.

During the December 2018 quarter, the subscriber base of Bharti Airtel and Vodafone Idea declined by 0.93% to 344.3 million subscribers and by 3.7% to 419 million subscribers, respectively, on a q-o-q basis.

CARE Ratings View

The minimum recharge plans are expected to stay as they will result in termination of services to minimal ARPU customers and will help improve the ARPU level of incumbents. We thus estimate the industry ARPU to improve on sequential basis and increase by 9%-10% on a y-o-y basis to average at around Rs.76-Rs.77 for the year FY20.