ADITYA BIRLA

IDEA Cellular

13 March 2015

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Telecom Regulatory Authority of India
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New Delhi – 110002

Subject: **IDEA Cellular's response to TRAI's Draft - Telecommunication Tariff (Sixtieth Amendment) Order, 2015**

Dear Sir,

In response to the Draft - Telecommunication Tariff (Sixtieth Amendment) Order, 2015, please find our comments as enclosed. These comments have also been sent through email at email ID manishsinha@trai.gov.in.

We are confident that the Authority will give due consideration to our comments before formalizing any guidelines in this issue.

Yours sincerely,
For **IDEA Cellular Limited**

Rajat Mukarji
Chief Corporate Affairs Officer

Encl.: as above

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Idea Response to the Proposed Telecom Tariff (Sixtieth Amendment) Order

The TRAI has proposed changes in roaming tariffs vide its proposed Telecom Tariff (Sixtieth Amendment) Order. The said draft amendment for reduction in ceiling tariff for domestic roaming is against the key Regulatory principles of Tariff Forbearance adopted by TRAI since inception; and it is this policy of Tariff Forbearance which has been responsible for robust growth of the industry.

The current TRAI proposal failed to appreciate the following:

A. Financial Health of operators – ROCE and Leverage ratio of Industry do not justify any further adverse financial impact.
B. Change in pricing of basic raw material – spectrum. The proposals fail to address the impact of shift to market determined spectrum price from administered spectrum price. Eg., the market driven spectrum price of all 22 circles (price at the end of 9th Day for 17 circles, actual price discovered in last auction for 3 metros and the TRAI recommended price for TN and J&K) is around Rs.40, 960 crores for 5MHz while the administered spectrum price for 4.4MHz was Rs. 1,658 crores or Rs. 1,884 crores for 5MHz. Thus, the pan-India market driven spectrum cost for 5MHz will be 22 times the spectrum cost based on the administered spectrum pricing.
C. Provide no basis for revision of ceiling tariff within less than 2 years.
D. Erroneous methodology for calculation of roaming tariffs. Typically, even the termination costs are not properly considered.
E. Impinges on time tested Regulatory principle of tariff forbearance.
F. Further the TRAI proposal, if implemented in current form, would lead to a situation wherein the local tariffs would be higher than roaming tariffs, thus putting an inverse pressure on local tariffs in an environment of financial stress.
G. TRAI has openly recorded that operators are bleeding financially and rates need to go up – the present proposal is an action in the opposite direction.
H. It is possible that TRAI's draft proposal of reducing the ceiling tariff for roaming is based on the misunderstanding of the facts that reduction of IUC charges results in reduced cost to the industry. IUC is only a means of inter-operator settlement and the cost/revenue for the industry as a whole gets balanced.

The impact of above could be severe on already debt burdened Industry and could even lead to various market distortions, which have been highlighted in detail below.

At the outset, we would like to draw attention of the authority on following key factors which have a direct bearing on the draft Telecom Tariff (Sixtieth Amendment) Order:

1. Financial Health of Operators

The financial health of the telecom access industry is grave as can be seen from the following data.

I. Return on Capital Employed (ROCE)

Operator	FY12	FY13	FY14
Idea Cellular Ltd.	5.3%	6.0%	7.2%
Bharti Airtel Ltd.	7.1%	5.7%	6.7%
Reliance Comm. Ltd.*	3.4%	3.8%	5.6%
Tata Teleservices (Maharashtra) Ltd*	0.1%	-2.4%	-0.1%
Mahanagar Telephone Nigam Ltd.*	-24.6%	-40.5%	-16.5%
Bharat Shanchar Nigam Ltd*	-11.9%	-11.1%	-10.7%
Tata Teleservices Ltd. *	-10.8%	-12.9%	-19.3%

Source: Annual Report/Calculated based on financial results filed with RoC

*ROCE Computation = $\dfrac{\text{PAT+ Net Interest and Finance Cost*(1-tax rate for the period)}}{\text{Shareholders' Funds + Net Debt}}$

The following are the takeaways from the above –

a. There are only 3 operators out of those listed above who are making any positive ROCE. All the remaining operators are incurring losses.

b. More importantly, even 3 operators who are earning profits are not able to even recover their cost of capital, with the best ROCE for FY14 being at 7.2%, much below the cost of capital of ~12%.

c. The most telling part is that these operators whose returns are below the cost of capital are not new start-ups, but are incumbent operators who have been operating since past 20 years with their licenses coming up for extension. One needs to also recognize that these are the levels of ROCE/Profits before taking into account the cost of investment to be made for extension of licenses based on market value of spectrum. The ROCE levels would further decline from FY14 levels once investment is made for extension of licenses and spectrum to continue their existing business, resulting in significant increase in capital employed just to maintain the existing revenue streams coupled with decline in profits due to higher amortization and interest. The recovery of cost of capital is nowhere in sight even after 20 years of operations, even for the market leaders.

d. The business case for operators has undergone a significant change with the cost of spectrum undergoing a fundamental change – from administered allocation allowing for low pricing to an auction based determination where the cost of the basic raw material is several multiples higher.

II. Leverage ratios

Operator	Period	Source	Net Debt	EBITDA	Net Debt / EBITDA
Bharti Airtel Ltd.	FY 14	AR	73,455	27,777	2.64
Idea Cellular Ltd.	FY 14	AR	20,231	8,334	2.43
Reliance Comm. Ltd.	FY 14	AR	40,178	7,726	5.20
Bharat Shanchar Nigam Ltd.	FY 14	RoC	4,013	-759	*
Tata Teleservice Ltd.	FY 14	RoC	22,966	188	122.36
Tata Teleservice (Maharashtra) Ltd.	FY 14	AR	6,498	706	9.21
Mahanagar Telephone Nigam Ltd.	FY 14	AR	13,970	-527	*
Aircel Ltd.	FY 14	RoC	18,763	294	63.72
Aircel Cellular Ltd.	FY 14	RoC	16	153	0.11
Dishnet Wireless	FY 14	RoC	17,478	473	36.97
Sistema Shyam Teleservices Ltd.	FY 14	AR	4,626	-816	*

All figures (except the ratio) in Rs. Crores

** implies that as the EBITDA is negative, the Leverage ratio cannot be calculated.*

As can be seen, the absolute level of leverage in the industry is more than 5 which is very high. This could be even worse than what is given above as information of few operators is not available. This will further increase when operators borrow for payment of spectrum to extend their licenses. Given this background, the operators will have severe constraints on capital to make investments in network to fulfill national policy objectives of rural coverage and digital India.

This also impacts the banks and other investors who will have to write off a significant part of these debts. There have already been exits by licensees where banks are saddled with NPAs.

2. Shift in Spectrum Pricing

- The industry is now moving from administered spectrum pricing to the market driven spectrum pricing through competitive bidding. With the current fierce bidding happening in the ongoing spectrum auction for just maintaining and protecting the existing investments and business, the telecom service providers are required to shell out crores of rupees without any extra incremental returns. With this kind of business model wherein the basic cost of inputs such as spectrum, active equipments, passive infrastructure, etc. are all market driven, how can there be a case for tariffs ceilings being prescribed by TRAI? In fact post the spectrum auction, there will be a strong case for even increasing the tariffs without which telecom operators are unlikely to attract the investors and fulfill the objectives of the NTP, Digital India, etc.

- The Indian Telecom sector is reeling under huge debts and declining returns. Post auction, major portion of these debts will be payable to the DoT towards stage payments of spectrum fee. If telecom service providers are not given the freedom in tariffing decisions, there will be a likelihood of the operators not being able to service their debt obligations and the issue will be further compounded by them not being able to attract new capital.

- Given the market driven costs of inputs, a fiercely competitive market conditions (no limit on number of players with India having the highest number of players compared to anywhere else in the world) and also given the fact that the telecom tariffs in India are among the lowest in the world, we strongly recommend that all tariffs should be kept under forbearance and be driven by the market forces

In view of the above, we strongly believe that the telecom tariffs should be under forbearance. Without prejudice to our view and the position on the matter, we give below our specific comments on the deficiencies observed in the draft Telecom Tariff (Sixtieth Amendment) Order:

1. **Drastic reduction in ceiling tariffs in just less than 2 years:**

   a. We give below the extent of ceiling tariff reduction proposed by the TRAI

Type of Service	Basis of Charge	Ceiling Tariffs prescribed through the 55th TTO dated 17th June, 2013)	Draft Ceiling Tariffs proposed in the 60th TTO dated 27th Feb, 2015	% Reduction in Ceiling Tariffs
Outgoing Local Voice calls	Rs. Per Minute	1.00	0.65	35%
Outgoing Long Distance (Inter-Circle) Voice calls	Rs. Per Minute	1.50	1.00	33%
Incoming Voice Calls	Rs. Per Minute	0.75	0.45	40%
Outgoing Local SMS	Rs. Per SMS	1.00	0.20	80%
Outgoing Long Distance (Inter Circle) SMS	Rs. Per SMS	1.50	0.25	83%

   b. In last 2 years not a single event/occasion has arisen which can justify reduction in tariffs. The Indian Rupee during this period has depreciated by more than 7% against USD, increasing the capex/opex cost of active infrastructure. Passive infrastructure is subject to contracted escalation of 2.5% p.a. The spectrum costs are going up significantly with fierce bidding in the auctions. In view of these factors, such a drastic reduction in the ceiling tariffs for roaming is completely unjustified. In fact there is a strong case for increase in tariffs

2. **Methodology for computation of cost based ceiling tariffs is based on inappropriate inputs:**

   a. **Incoming Voice Call ceiling tariff of Rs. 0.45 per Minute:**

      I. TRAI has calculated this ceiling tariff as under:
         - Carriage Charge – Rs. 0. 35 per Minute
         - Incremental Cost of Roaming – Rs. 0.10 Minute
         - Total Charge – Rs. 0.45 per Minute

      II. TRAI has used the benchmark of Rs. 0.35 per minute for carriage on the basis of its earlier order of IUC in which carriage charges were reduced from Rs. 0.65 per minute to Rs. 0.35 per minute. Most of the operators use their in-house captive NLD network for carrying more than 90% of the inter-circle traffic. **Hence, mere reduction in ceiling tariff for carriage does not result in any reduction of the overall cost of the TSPs.** We therefore, strongly recommend not to use reduced carriage charge for the computation of roaming tariff as the basis of revision of ceiling.

      III. In the case of incoming call in a national roaming scenario, the network of the TSP is used for terminating such calls and the home network is required to pay a termination charge to the visited network. TRAI has not at all considered this cost in the above computation

      IV. TRAI has considered incremental cost of roaming of Rs. 0.10 per minute which is incorrect, particularly when the inter-operator settlements are quite high in number. In any case it is submitted that regulator should not intervene in the mutual commercial arrangements between the service providers as far as possible.

      V. While TRAI has taken Rs.0.10 per minute as an incremental cost of roaming, there is no mark-up available on the cost for facilitating incoming call. No TSP can provide roaming at cost without any mark-up. Therefore, a reasonable mark-up should be provided as an incentive to the TSPs for providing roaming facility

   b. **Outgoing Voice Call ceiling tariff of Rs. 0.65 per Minute:**

      I. TRAI has calculated this ceiling tariff as under:
         - Origination Charge – Rs. 0.40 per Minute
         - Termination Charge – Rs. 0.14 per Minute
         - Incremental Cost of Roaming – Rs. 0.10 Minute
         - Total Charge (rounded) – Rs. 0.65 per Minute

      II. The Authority has set cost of outgoing call (Rs 0.40/min) as proxy, basis access charge to be paid by calling card service providers which is not the right methodology, as the access charge is related to wholesale arrangement and has benefits of economy of scale and it doesn't need flexibility/margin to address variations of retail offers. In other words, using access charge as the basis of calculating the cost of outgoing call leaves very little margin/mark-up for price innovations and variations in products to meet various customer needs. Hence, setting cost of outgoing call to Rs 0.40/min is not a correct methodology when our existing outgoing realised rate itself is at Rs. 0.55/min and the same is derived from a large subscriber base with varied patterns. Even otherwise, cost of roaming calls cannot be set at industry average realization rate as it is an average over a large subscriber base with varied usage patterns where subscriber tariff ranges from 90p/min to 120p/min. Also, fixing ceiling on the basis of ARR is economically incorrect. <u>The ceiling, if at all needs to be prescribed, has to be applied /fixed at highest tariff in the market than at ARR which is derived from a large subscriber base with varied patterns.</u>

III. TRAI has considered incremental cost of roaming of Rs. 0.10 per minute which is incorrect particularly when the inter-operator settlements are quite high in number. In any case it is strongly recommended that regulator should not intervene in the commercial arrangements between the service providers

IV. While TRAI has taken Rs.0.10 per minute as an incremental cost of roaming, there is no mark-up available on the cost for facilitating incoming call. No TSP is supposed to provide roaming at cost without any mark-up. Therefore, a reasonable mark-up should be provided as an incentive to the TSPs for providing roaming facility

c. **Outgoing STD Voice Call ceiling tariff of Rs. 1.00 per Minute:**

I. TRAI has calculated this ceiling tariff as under:
   - Origination Charge – Rs. 0.40 per Minute
   - Carriage Charge – Rs. 0.35 per Minute
   - Termination Charge – Rs. 0.14 per Minute
   - Incremental Cost of Roaming – Rs. 0.10 Minute
   - Total Charge (rounded) – Rs. 1.00 per Minute

II. All our comments relating to origination charges, carriage charges and incremental cost of roaming as mentioned in 3(a) and 3(b) above apply to outgoing STD calls ceiling tariff as well.

d. **Outgoing Local/STD SMS ceiling tariff of Rs. 0.20/0.25 per SMS:**

The Authority would appreciate the fact that cost of outgoing and incoming SMS for roaming on dissimilar network (for instance, an IDEA customer roaming on other network) is determined by wholesale commercial arrangement between operators and settlement rates may be much higher than suggested ceiling. The Authority should not regulate commercial roaming rates between operators and between various circles

3. Distortions in the telecom market:

We strongly recommend forbearance tariff for home as well as roaming scenario in view of potential distortions in the telecom market as explained below:

I. The Authority, vide its 55th amendment to the TTO had mandated Roaming Tariff Plans (RTP), wherein the outgoing home call tariff is equivalent to the outgoing roam call tariff. Implementation of the 60th amendment would in a way put ceiling to the home tariff, leaving no room for mark up or price variations, different plans/products. The introduction of RTP plans with the proposed ceiling will lead to a massive shift of subscriber base, who are currently at a higher tariff than the RTP plans.

II. By regulating roaming tariffs through ceiling while leaving cellular tariffs in HSA to forbearance, it will create discrepancy and arbitrage opportunities in market where roaming outgoing rates would be lower than HSA tariffs, resulting in flight of SIM(s) in huge numbers to different circles e.g. if HSA base rate is 2ps/sec (i.e. Rs 1.2 /min), while roaming rates are regulated to Rs. 0.65/min and Rs 1.0/min, then it would be cheaper to roam than take local connection in that circle, and will result in movement of SIM(s) en masse from other circles, which besides hurting our business, will also pose threat to the National Security. The security norms established by the Licensor would be vitiated in case the miscreants use this avenue to avoid traceability in another LSA.

III. Removing the forbearance by way of ceilings is not justifiable as it affects the viability of telecom business itself. If the Government wants to move to cost based/ceiling regime, it needs a much higher debate and in that case, it should assure certain return on investment above weighted average cost of capital. However, we feel that in the telecom sector the Regulator should rather promote forbearance in all types of tariffs including roaming. The market forces will take care of prices and differential competitive products.

IV. The Explanatory Memorandum, explaining elasticity of usage due to roaming tariff revision in June 2013, assumes that the increase in incoming minutes of 25% is mainly due to reduction in tariff from Re 1/min to Rs 0.75/min which is not true. We firmly believe that the increase in roaming incoming minutes is mainly due to the introduction of incoming free STV(s) launched by service providers which we have been demanding for long. This has been well acknowledged by TRAI in the draft paper itself that the roaming STVs contribute about 28% of the total voice usage by national out-roamers, which was zero before. If reduction in roaming tariff does not result in increased usage, TSPs will be forced to make up for the lost revenue by increasing the home tariff.

V. Apart from the above, Roaming Tariff ceilings, if at all provided, should also be provided for per second billing as have been specified for per minute billing, as many customers have moved or are moving to per second billing. Granularity impact to the operators should also be duly factored.

4. **Review of ceiling tariffs guided by One Nation – Free Roaming in NTP 2012 not justified:**

   a. We would like to submit that One Nation is contingent upon implementation of various regulatory and policy interventions including One India license which is not the case today as the spectrum costs and licenses are different for different service areas and so are the market forces and tariffs. All operators do not operate across the country and different operators have different positions in different circles

   b. TRAI itself, during the consultation process on National Roaming, has acknowledged that free roaming will give rise to an arbitrage and is not feasible in the current licensing regime. TRAI has also pointed out that any efforts to bring down the roaming tariff to home tariff could lead to TSPs increasing the home tariffs for recovering the revenue lost.

   c. In view of above, TRAI's proposal of undertaking the review of roaming ceiling tariffs in the background of NTP 2012 is not at all justified.

In summary, we would like to submit as under:

I. **Since all cost inputs of the telecom operators including the spectrum cost are driven by the market forces, it would not be appropriate for the TRAI to regulate tariff through prescription of ceilings. We strongly recommend forbearance tariff for all the revenue streams of the TSPs particularly given the fact that Indian telecom sector is fiercely competitive, is providing one of the lowest tariffs in the world, is reeling under the huge debt burden and is becoming economically unviable**

II. **If at all TRAI still decides to prescribe ceiling tariffs, we sincerely hope that the authority will consider our submissions on each of the proposals and review/revise accordingly.**

III. **We request TRAI to give us the opportunity of explaining our points in detail before proceeding further in this crucial matter.**

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