

**ADITYA BIRLA**



**IDEA Cellular**

10<sup>th</sup> Mar 2012

**Shri Raj Pal,  
Advisor (Economic Regulation),  
The Telecom Regulatory Authority of India,  
Mahanagar Doorsanchar Bhawan,  
Old Minto Road,  
New Delhi 110002**

**Sub: TRAI's Consultation Paper on "Review of Policy of Forbearance in Telecom Tariffs" dated 6<sup>th</sup> Feb, 2012**

Dear Sir,

This is with reference to the Authority's invitation for comments on the above-mentioned Consultation. In this regard, you may note that Idea Cellular endorses the views expressed by COAI on this issue. In addition, we have the following comments:

**Need for TRAI consultation – Operator sustainability is also the responsibility of TRAI.**

We wish to state that the context for present consultation paper appears to be the promotional tariffs correction by operators in the recent past. While, our response addresses this issue in detail, we would also like to draw the attention of the Authority towards its own "Mission Statement" as stated in its Annual Report 2009-10 which is to "ensure that the interests of consumers are protected and at the same time to nurture conditions for growth of telecommunications". The Authority under its "Aims and Objectives" has inter alia stated the objective of "ensuring operator viability in a consistent manner".

**Tariff forbearance, a critical enabler for flexibility in product offering :**

It is now well established beyond doubt that the mobile customers in India enjoy not only the most competitive tariffs in the mobile segment but also a variety of options to choose from, that address their specific needs. This is partly because the new telecom consumers come from a different socio-economic strata of the society, and partly because they hail from different geographic locations - urban, rural, semi-urban, etc. For E.g., the needs of a first time rural customer are different from those of a first time urban student customer - the rural customer is more interested in getting connected at a reasonable price, and the urban student looks for additional features like high speed mobile internet, interesting VAS, Texting, etc. These varying needs of different consumers have already led to the creation of various consumer segments, such as:

- Students
- Youth
- Working women
- Housewives
- Professionals
- Senior Citizens



1

We at Idea Cellular are therefore continuously launching segment-specific tariff plans to meet the needs of these and many other constantly evolving customer segments, a strategy that has helped Indian consumers adopt mobile telephony at a fast pace making India the fastest growing telecom market in the World. Any regulation of tariff is likely to restrict this flexibility and result in reducing the choices available to customers ultimately also giving rise to likely customer dissatisfaction and dissonance.

**No Merit in withdrawing from tariff forbearance for lack of “effective competition”**

We feel that the Authority’s concern on absence of “effective competition” is completely misplaced as India has one of the highest number of operators per service area when compared with the other countries. While the Authority in its Consultation Paper has stated that, *“However, despite existence of the new entrants, by the end of December 2011, it is seen that the subscriber base of new operators remains less than 7.5% and the top six incumbent operators enjoy the market share of more than 80% in terms of subscriber base. This indicates absence of effective competition despite presence of multiple operators in each service area”*, we feel that the fact that top six incumbent operators enjoy the market share of more than 80% in terms of subscriber numbers is in itself only a validation that any number of players above 6 is not a significant value-addition to the subscriber market, although there can be no denying the havoc this supposedly “enhanced competition” has unleashed on the profitability and sustainability of the telecom industry as a whole, as borne out by the various Analyst Reports. Hence, we feel that there is no merit in the argument on withdrawing from “tariff forbearance” for lack of effective competition, when the facts suggest otherwise.

**Data Market needs time to stabilize, and hence “tariff forbearance” is the only way forward:**

As regards the data services, we feel that the Indian Market is still evolving and needs time to stabilize. The data volumes currently being low, investments in network require a minimum price per unit below which it is no longer profitable. However, with volumes on the rise, it is expected that the price per unit may fall as has happened in voice tariffs. Hence it is suggested that the TRAI continue with its policy of forbearance and allow the market forces to play out. Here the TRAI needs to also keep in consideration the fact that operators have paid huge amounts to bag the 3G spectrum, and hence any interference with the pricing of data services at this juncture is likely to upset the business models on which the 3G spectrum was bid by the respective service providers.

**Cost Pressures – the context for price increases:**

The Authority may note, Idea Cellular Limited (as also other Industry players), is going through severe cost pressure due to hyper competition specially in the last 8-9 quarters including but not confined to a fall in realized rate per minute, escalating cost of Operations, increasing demand for investment towards maintaining TRAI mandated quality norms in the severe spectrum shortage environment, expansion of coverage in rural areas, one time payment of 3G spectrum auction fees, launch of new 3G services and many other additional components. As, we are a listed company, given below are the highlights, in detail, of the points impacting our long term sustenance.

- a. The average realized rate (ARR) for our company has been sliding for the last 8 quarters, from Q1 FY10 to Q4 FY11. We give below our average realized rate per minute from Q1 FY10, to Q1 FY12 of the current financial year.

**Time Series Realized Rate / Minute Table**

(paise/min)	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12
<b>Average Realized Rate/ Min (ARR)</b>	58.1	55.7	51.4	46.6	43.8	42.3	41.8	40.6	41.0

*As per Company's Quarterly reports*

The ARR drop of 58.1 paise /minute to 41.0 paise/minute from Q1 FY10 to Q1FY12 is ~ 30%. Such a steep drop is unsustainable for any telecom company.

- b. Despite falling tariffs, the Company due to the constraint in 2G spectrum and to meet TRAI quality norms while continuing to expand its coverage in rural (now available in 250,000 villages) has incurred an incremental investment of Rs. 15,945 Cr in the last 15 quarters.

**Idea Investment Table**

Rs Crores		Mar' 09	Mar' 10	Jun'11
<b>Gross Block + CWIP</b>		<b>20,181</b>	<b>25,837</b>	<b>36,126</b>
<b>Annual Investment</b>	<b>Incremental</b>	<b>5,243</b>	<b>5,656</b>	<b>10,289*</b>

*As per Annual Report, \*Mar'10 to Jun'11*

- c. The above investments, which are substantial, have been financed primarily from borrowings, both domestic and foreign institutions, the result of which is a significant increase in the interest cost. The net interest cost incurred by the company during the first quarter of FY2010 was Rs.40.6 crores, which has now gone up to Rs 206.1 crores in the first quarter of FY2012, an increase of over 407%

**Interest Cost Table**

Rs Crores	Q1 FY10	Q1 FY12	Increase
<b>Net Interest</b>	<b>40.6</b>	<b>206.1</b>	<b>165.5</b>

Incremental Interest cost ~ Rs 165.5 Cr,

*As per Quarterly reports*

- d. The Inflation index as per the Finance Ministry is given below :

	2009	2010	Jul '11
<b>Inflation</b>	<b>10.9%</b>	<b>11.7%</b>	<b>8.4%</b>

*Consumer Price Index, Source: Finmin.nic.in*

Such inflation has no doubt impacted the telecom sector also. The company too has been feeling the impact of increasing costs in all the areas of operations, particularly the Network operating cost (largely due to the impact of increase in petroleum prices). Our Network operating costs have more than doubled from Rs. 2,076 crores in FY09 to Rs.4,680 crores in FY11, an increase of 125% and Network expense as a % of revenue has increased from 21.0% to 30.4%.

- e. Similarly, the Regulatory cost on the sector has been significantly increasing. During the last 2 years, various DoT and TRAI Regulatory requirements have had a direct cost impact on the company, including interest in
- i. MNP
  - ii. IMEI
  - iii. Customer Verification, LBS and related security norms
  - iv. Penalty costs imposed by VTM
  - v. UCC
  - vi. EMF
- f. These costs when combined with very high taxes – direct and indirect including license fee payment, spectrum charges, escalating service tax, custom duty and other charges has already made the Indian telecom industry amongst the most taxed. Apart from the above, Idea won 3G spectrum auction in 11 Service Areas in a globally administered market determined auction and paid a one time fee of Rs. 5,786 crores for license for 20 years. This has had two impacts –
- i) Amortization cost from April 2010 of Rs. 72.3 crores in a quarter Interest Cost of Rs. 157 crores due to higher leverage.
- g. It is expected that due to 3G spectrum full launch in this financial year, the full cost of 3G will reflect in our balance sheet in FY12. Had this full impact come in as of March 2011, the ROCE for FY 11 would have been lower by 4.6% and PBT for FY 11 would have been lower by 0.3%.
- h. Therefore, due to the above factors specially the fall in tariffs following hyper competition particularly in the last two years, despite the company being a pan India operator and generating over 360 billion minutes in FY 2011, the key financial parameters such as the PBT margin and the ROCE have been steadily falling as is evident from our annual financials given below.

**Profitability Table**

	<b>FY 09</b>	<b>FY 10</b>	<b>FY 11</b>
<b>PBT (%)</b>	<b>10.3%</b>	<b>9.5%</b>	<b>6.6%</b>
<b>ROCE (%)</b>	<b>11.6%</b>	<b>8.1%</b>	<b>5.9%</b>

*As per Annual reports*

- i. Due to this severe cost stress, and with falling returns on investment coupled with inflation, the ability to attract long term investors is under real threat.

- j. Further, we would also like to draw the attention of the Authority and highlight certain key observations from the recently released PwC Report.

**PwC Report on Indian Mobile Services Sector:**

**Current trends in the industry indicate:**

- a) **Stagnating telecom revenues.** Between FY 2009 and 2010 while the growth in subscriber base has been ~ 49%, the industry revenues have grown by a meager 5% which is even less than the 8.72% inflation recorded for that period.
- b) **Net Debt to EBITDA** ratios have progressively moved up indicating higher levels of indebtedness. For example the Idea's Net Debt to EBITDA has deteriorated as given below

**Net Debt to EBITDA Table**

	FY 09	FY 10	FY 11	Q1 FY12
<b>Net Debt/ EBITDA</b>	<b>1.02</b>	<b>1.68</b>	<b>2.76</b>	<b>2.43</b>

*As per Annual & Quarterly reports*

- c) **Significant increase in Network operating expenses.**
- d) **Additional expenses on account of compliance to the various Regulatory mandates such as MNP, UCC, Subscriber verification, lawful interception and EMF.**
- e) **Reversal in FDI inflows and capex outlays with a decline of nearly 50% in the investments by leading operators.**

**It is amply clear from the above facts that the entire Industry is going through severe cost pressures and hence any price correction in the past, that may have in any way contributed to this Consultation, should not be viewed in isolation - rather they should be seen as an exercise of the "tariff forbearance" granted by the Authority to all operators that allows them to take steps that lead to long term sustainability and viability for the Industry.**

**Pending ILD tariff issues also relevant:**

The Authority will also recall that in Oct, 2010 vide its consultation paper on "Certain issues relating to tariffs", the Authority had requested comments from stakeholders on the question - ***"Do you think there is sufficient justification to allow the service providers to realign the ISD tariff in respect of existing lifetime subscribers in view of the grounds mentioned in their representations?"*** Idea Cellular had then through its response submitted that the factors governing the cost of ISD tariffs, like that of international roaming tariffs, are beyond its control. It had also apprized the Authority about the increase in termination charges in respect of ISD calls to several destinations resulting in higher pay out and negative revenues on account of a freeze in the ISD tariffs offered under lifetime plans. It was also pointed out by Idea that since the Industry has on various occasions in the past reduced tariffs to pass

the benefits of reduction in input cost to its entire existing customer base, there was enough justification that any increase in input costs also be made applicable on the complete customer base. Since the present Consultation also deals with the subject of tariffs, we would urge the Authority to kindly consider this afore-mentioned issue also that has important repercussions for the health of the Industry.

**In Summary, we submit:**

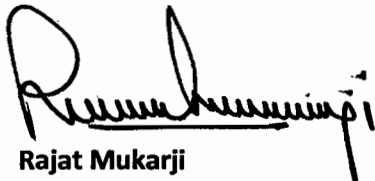
- 1. Tariffs are a function of customer needs and requirements. Varied customer requirements lead to different product constructs.**
- 2. Operators can address the dynamic customer requirements swiftly only when they have full flexibility from a Regulatory perspective.**
- 3. The current Regulatory regime provides the operators with desired flexibility to address the dynamic customer requirements as well as modulate tariffs accordingly.**
- 4. The current competitive market situation also ensures that tariffs are rational and geared towards giving the customers the best value for their money.**
- 5. Data market is at a nascent stage of its evolution and any premature Regulatory intervention would impact the operators short term and long term prospects of business viability.**
- 6. Tariff corrections are a reflection of the health of the Industry and should not be seen in isolation.**
- 7. The ILD tariffs for existing lifetime customers need urgent Regulatory review, in view of the revised settlement costs implemented by some countries.**

We earnestly believe that the Authority will give due-consideration to our comments before formalizing any final opinion on the subject.

Thanking You

Yours faithfully,

**For IDEA Cellular Limited.**



**Rajat Mukarji**  
**Chief Corporate Affairs Officer**