

## **Tariff war, new players put state telcos in a spot**

19 Nov 2009, 0155 hrs IST, Joji Thomas Philip & Ranjit Shinde, ET Bureau

NEW DELHI/MUMBAI: It is not private operators, but state-owned telcos — BSNL & MTNL — that have taken the maximum hit due to the ongoing tariff war and the entry of several new players, an ET analysis of the revenue figures of all telcos has revealed.

While telecom sector's revenues and profits have plunged in the quarter ended September 2009, large private operators such as Bharti Airtel, Reliance Communications, Vodafone Essar, Idea Cellular and Aircel, have all managed to increase their revenue market share during this period.

According to an ETIG analysis of the telcos' sales, Bharti's revenue market share has increased to 29.3 per cent as of September 2009 when compared to 27.6 per cent in June in the same year, while Vodafone now accounts for 15.7 per cent of the total earnings of the sector as against 14.6 per cent in June 2009.

BSNL's revenue market share has fallen to an all time low of 19.7 per cent when compared to 23 per cent in June in the same year.

In fact, BSNL's revenue market share was over 35 per cent in March 2008, the highest in the industry. Its sister concern MTNL too has witnessed a fall in its revenue market share by 300 basis points to 3.5 per cent as of September 2009-end.

Ditto with the Tatas, the first to launch per second billing (for its GSM customers) and per call billing (for their CDMA users) thereby triggering the price war, as this company's share of the telcos' overall revenues has slipped to about 7.3 per cent in September 2009 when compared to 8 per cent in the corresponding period in the same year.

The telecom sector's revenues include that from mobile services, landlines, internet services as well as proceeds from national and international long distance operations, among others.

A top executive with a leading GSM operator pointed out that BSNL's revenue market share was higher than the likes of Vodafone Essar, RCOM and Idea since the PSU was a dominant player in the fixedline and broadband space.

"If only the mobile operations are considered, then Bharti has a revenue share of a little over 33 per cent, followed by Vodafone at 20 per cent, Idea and Reliance at about 12 per cent and BSNL with about 11 per cent," he added.

The brutal tariff war, that has forced all operators to slash call rates, has also resulted in the sector's sales figures dipping over the past six months despite the addition of 80 million customers in the period.

An analysis of the financial performance of the sector also indicates that the industry clocked about Rs 38,755 crore in September 2009, which was lower than the sector's

revenues in the quarter ended December 2008, when it recorded Rs 39,408 crore despite having 125 million fewer customers then.

At present, telcos pay between 25 and 30 per cent of their annual revenues to the government towards different forms of levies. Therefore, any reduction in the telcos' revenues translates to a direct fall in the contribution of this sector to the government's kitty.

Thirteen mobile phone firms are jostling for space in a market that most analysts say can support only 4-5 operators. Four more companies are due to launch services by next year, portending fiercer battles to win and keep customers. India currently has some 500 million wireless subscribers.

"The revenue figures prove that the number game is over. A large segment of the new customers are those who have taken an additional SIM for freebies that come with it. The profits of incumbents may take a hit in the short term, but they are best equipped to ride out this tariff war and emerge stronger," explained a top executive with one of the country's largest telecom companies.

Bharti Airtel CEO Manoj Kohli too shares a similar view. "At Bharti, our focus is only to increase the revenue market share — this is the only factor that matters and not subscriber adds or average revenues per user," he had said.

Similarly, Bharti Airtel's marketing head Shireesh Joshi had recently told ET that while the telco accounted for a fourth of the country's mobile market, its revenue market share was 33 per cent in this space. "This is proof of the quality of our customers. It proves that our offerings are far superior than some of our competitors and therefore to some degree we command a premium," Mr Joshi had said.

Top BSNL executives, speaking on condition of anonymity, say the company has been severely hobbled by political interference. They point out that telco's dip in revenue market share is best explained by the fact that the PSU has exhausted its capacity to expand cellular services nearly 20 months ago and has been unable to place contracts for mobile networks since then.

A section of BSNL's top executives are also of the view that 'vested parties' were behind the move by certain vendors who had dragged the PSU to court delaying its expansion plans. They also add that in 2006 and 2007, the company matched India's biggest and most valuable phone firm Bharti Airtel in subscriber additions, but meddling since then had resulted in growth stagnating.