

NEW ENTRANTS SEEK REFUND OF FEES

New telcos may exit, set off consolidation

Some Players Find Funding Difficult, Want To Return Licences

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NEW DELHI

THE telecom department (DoT) is examining proposals that would allow new mobile operators, who were given licences and airwaves under controversial circumstances two years ago, to sell out or exit, paving the way for a possible consolidation in the 14-player domestic telecom market.

A senior DoT official said 'exit options' were being discussed after some new entrants approached the telecom department seeking a refund of their ₹1,651-crore entry fee in return for them surrendering their licences and spectrum to the government. While the official declined to name any particular company, he added that some players wanted to selectively surrender licences and spectrum in specific circles as they faced 'several' constraints, including funding, in launching mobile operations across all 22 geographies in the country.

The official said several possibilities were being considered, including allowing new companies to merge with larger operators, shortening the three-year period during which the promoter of a new company cannot sell out, and relaxing rules to allow incumbents to retain airwaves held by these new companies if a buyout or merger were to happen. He added that these discussions were still at an 'initial stage' and

nothing had been finalised.

Stringent M&A restrictions had been imposed on the telcos a few years ago to prevent new players, who had got pan-India licences and spectrum at a flat fee of ₹1,651 crore, from selling out at huge profits. Earlier this year, the telecom regulator issued a new set of M&A guidelines which were criticised by some of the big telcos as these recommendations effectively shut them out of the consolidation process. But the Solicitor General of India has recently said that it is no longer mandatory for the telecom department to seek the telecom regulator's recommendations while making policy changes, giving DoT the power to unveil new M&A norms on its own.

Romal Shetty, telecom practice head at telecom consulting firm KPMG, said both new entrants and existing operators were keen that the M&A norms be amended as 'the industry is of the view that a 14-player market will kill the sector'. "At most, the country has to have 6-7 players for the sector to be profitable. Existing norms will have to be relaxed, and globally, companies have always talked to regulators for favourable policy measures for their survival," he said. Mr Shetty added that mergers would also lead to more efficient use of airwaves.

TOO MANY PLAYERS

The industry feels a 14-player market will kill the sector. At most, India has to have 6-7 players

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THE BACKGROUND

- Some new telcos had approached DoT seeking refund of entry fee if they surrendered licences and spectrum
- Some others wanted to selectively surrender licences and spectrum in several circles as they faced 'several' constraints

THE PLAYERS

- Etisalat & Loop (barring Mumbai) yet to launch operations despite holding pan-India airwaves for 3 yrs
- Telenor-owned Uninor has also said it is willing to participate in the consolidation process
- Stel exploring options to merge or buy out another telco as its licences are limited to six circles
- Videocon has launched operations in only 5 of the 22 circles for which it has licences

THE OPTIONS

- Allowing some of the new entrants to merge with larger operators
- Relaxing the three-year lock-in clause for promoters
- Allowing incumbents to retain airwaves they hold even after merger



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'Consolidation inevitable'

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BHARTI Airtel, the country's largest telco, too believes that consolidation is inevitable. "We have been saying from day 1 that 14 operators cannot have an economic model that is sustainable and viable. We have always maintained that final consolidation will see not more than 5-6 operators," said Sanjay Kapoor, CEO, India & South Asia, Bharti Airtel.

Uninor, which has had the most successful rollout among the new telcos, says it will keep its M&A option open. "We believe consolidation will happen when the environment supports it. We intend to grow further with a long-term business case based on organic growth. Of course, we will keep our M&A option open—when the environment is more suitable and a good opportunity becomes available," says Rajiv Bawa, executive vice-president, Uninor.

New players have struggled with their rollout plans and their rate of adding new subscribers has slowed down. Etisalat and Loop (except in Mumbai) are yet to launch commercial operations despite holding pan-India airwaves to launch mobile services for nearly three years. Videocon has launched in only five of the 22 circles. STel, another new player, is also exploring options to merge or buy out another telco as its licences are limited to just six small circles.

Uninor, STel, Loop, Etisalat DB, Videocon and Sistema together added less than 12% of 18 million customer additions in June, according to data released by Trai. This is in sharp contrast to last year's numbers when Uninor added a million users within 30 days of launch. STel managed to clock one million subscribers in 90 days

from three small circles. While Videocon added 1.39 million users in May, it could add only a third of that in June. The new entrants together account for less than 3% of India's 600 million mobile users.

All new entrants — with the exception of Sistema Shyam — are under probe by both the Central Vigilance Commission as well as the Prime Minister's Office for delaying the rollout of their operations. Telecom minister A Raja has been publicly flogged by Opposition parties for allegedly causing the exchequer an estimated loss of more than Rs 60,000 crore by awarding 2G licences to companies at throwaway prices. Mr Raja did not heed calls from several sectors, including the finance ministry, to auction these licences, which came bundled with start-up 2G airwaves. This controversy also prompted CVC to investigate this issue. In its queries to the DoT, CAG had alleged that the losses were to the tune of Rs 26,000 crore.

While their growth rates may have slowed down, the bruising price war launched by the new companies has adversely impacted the profits and revenues of the established players.

This led to combined revenues for the telecom sector in March 2010 being lower than the industry's total revenues for the quarter-ended December 2008, despite the addition of over 200 million new users during this period.

Earlier this year, Vodafone Group Plc, which controls India's third-biggest mobile company, said it was taking a charge of \$3.3 billion on its operations here on account of the price war and increasing spectrum costs. The sector has stabilised over the last six months as no new price cuts have happened during this period.