Opportunities in the Indian Telecom Market

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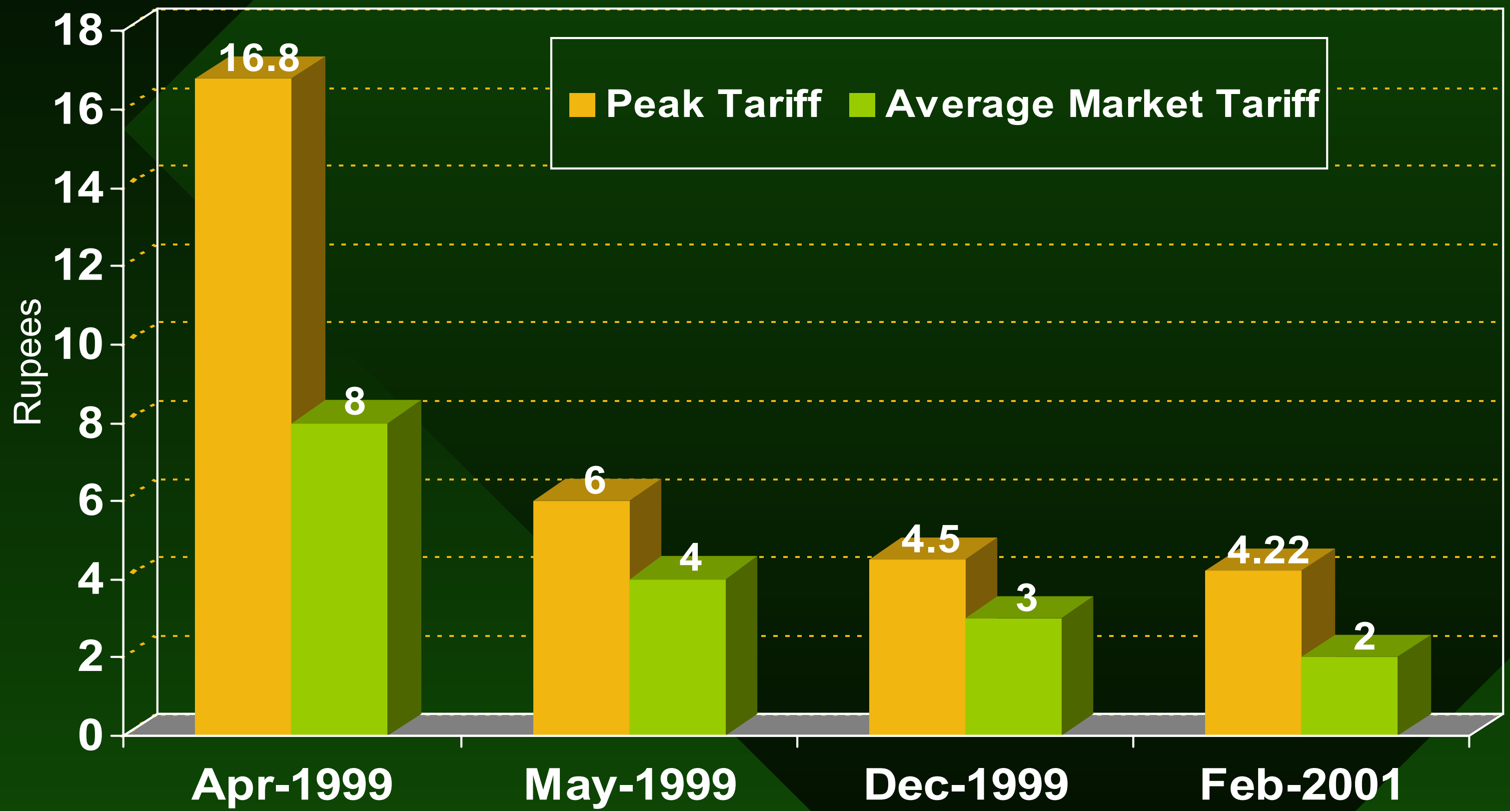
Achievements of the Industry

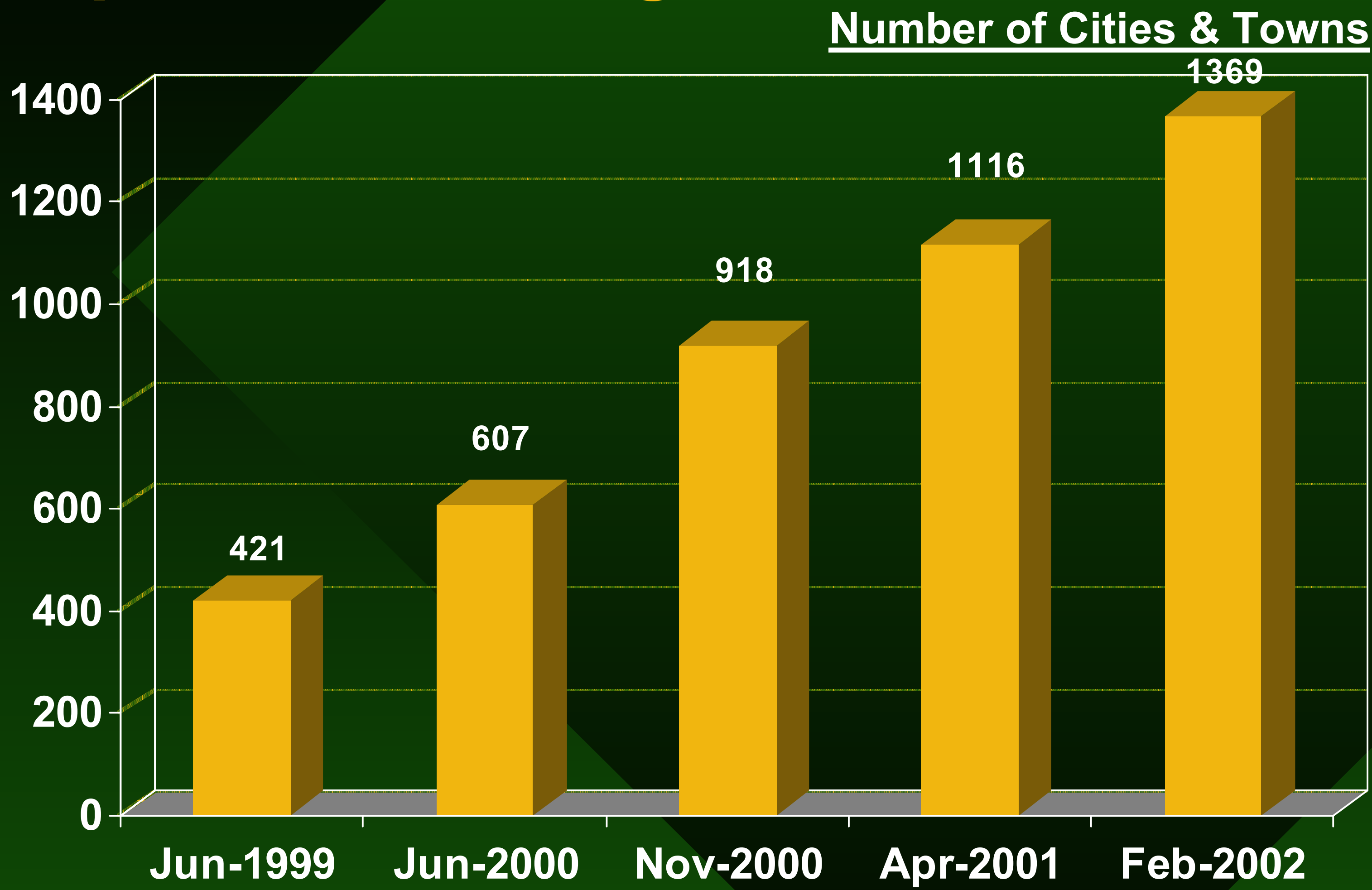
Affordable Tariffs

Tariffs have fallen by more than 90% in the last two and a half years…



Operators have always been offering services at tariffs lower than the ceiling prescribed by the Regulator.

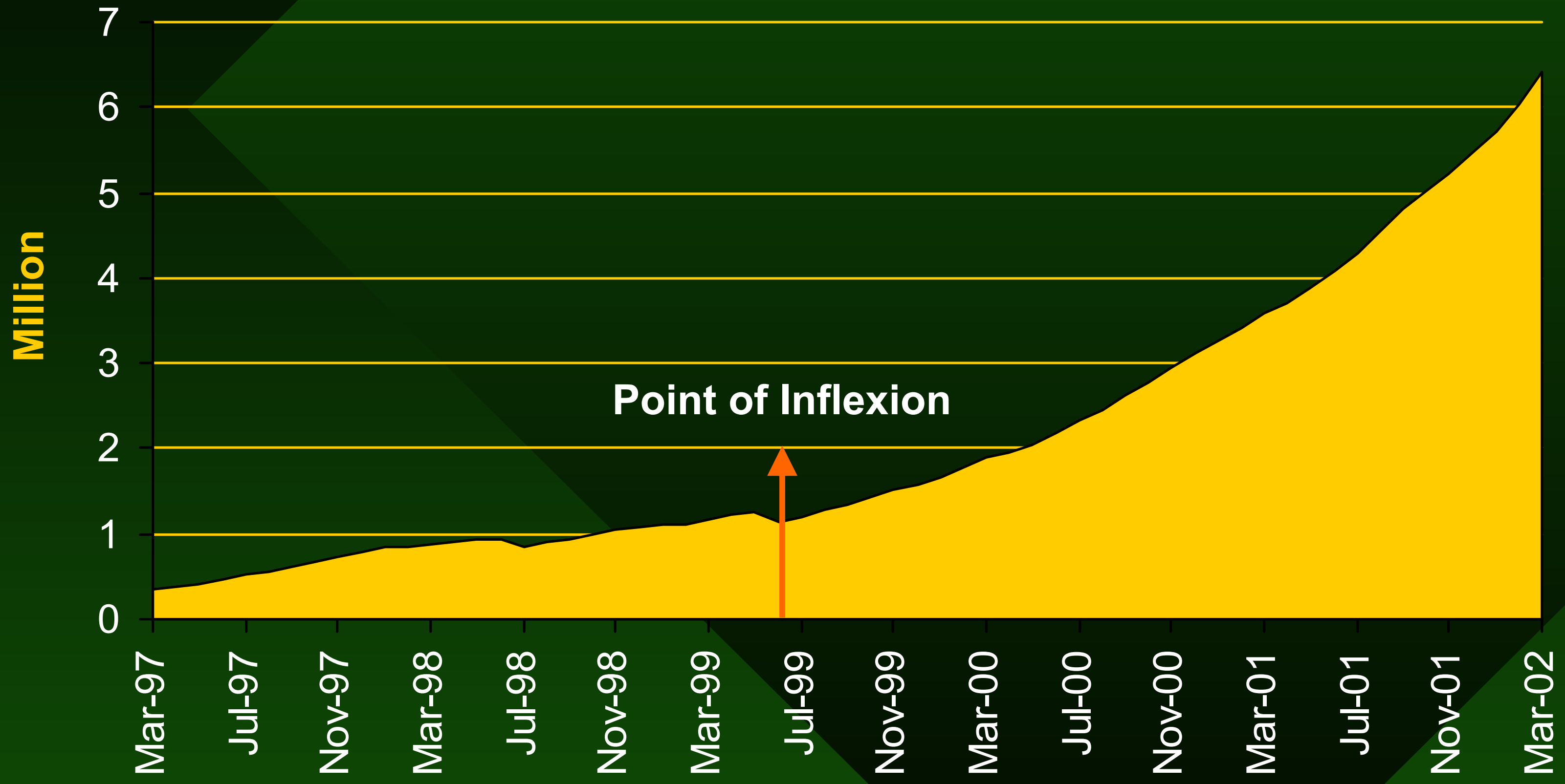
Improved Coverage



Renewed viability of industry post NTP 99, made it possible to extend the services to more towns & reach out to low-end users.

Increased Subscriber Growth

The number of cellular subscribers all over India crossed 6.4 million by end- March 2002.



Point of inflexion appears to have been reached soon after NTP 99 was announced and once cellular operators migrated to NTP 99.

Current Status & Trends

Current Status

➢ Coverage :	Almost 1400 Cities & Towns
➢ Tariffs :	Approx. Rs. 2 / minute
➢ Handset costs :	Rs. 2,000+
➢ Subscriber Growth :	Almost 0.3 million / month
➢ Subscriber base :	6.5 million by FY 2002
➢ ARPU	Around Rs. 800 / month
➢ Minutes of use :	Approx. 220 minutes / month

Current Trends

- Growth is amongst the low-end users.
- ARPUs are dropping as volumes are picking up.
- Increased usage of cellphone for long distance calls as STD tariffs have crashed.
- Growth in Metros continues to be aggressive as 88% YOY growth recorded in Year 2001-02.
- The ‘B’ category Circles also recorded a strong growth rate of 83% YOY in 2001-02.
- In ‘C’ Category Circles, the number of subscribers have almost doubled in the last financial.
- Prepaid segment accounts for almost 50% of the subscriber base and 70% of the new additions.
- Value added services like SMS have really caught on.

Customer Profile Demographics

- Almost 50% of the cellphone users are below 30 years of age.
- Prepaid users are younger than post paid users – 57% below the age of 30 as against 46% in the case of post paids.
- Prepaid users are relatively less educated.
- Businessmen & traders form almost two-thirds of the market segment.
- Salaried class represents about 25%.
- Post paid subscribers had a higher monthly income than prepaid subscribers

Customer Profile Usage

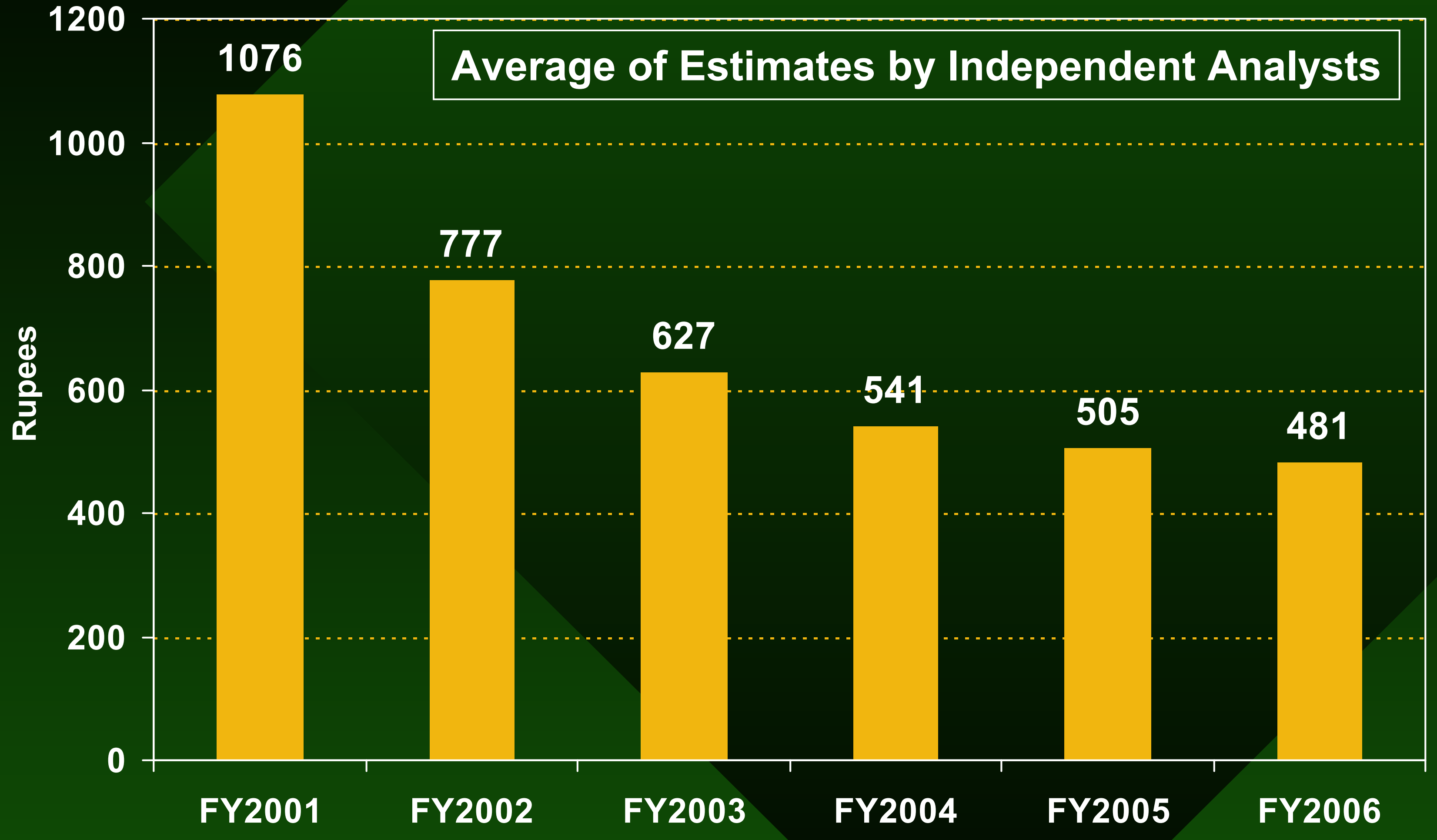
- In most cases, cell phones are used both for business & personal purposes.
- Prepaid is a recent phenomenon. More People using the cell phone entirely for personal use tend to go in for a prepaid service.
- Over 50% of the subscribers are prepaid subscribers.70% of the subscriber additions are in the prepaid category.
- Post paid subscribers on an average have a higher monthly bill than prepaids.
- 50% of the prepaid subscriber yield an ARPU of less than Rs. 500 / month.
- 83% of the usage is in local calls, 16% in STD calls and a negligible 1% in ISD calls.
- Only around 15% of the calls are mobile to mobile calls, balance are mobile-fixed or fixed to mobile calls.

Future Growth Potential

Market Strategies for Growth

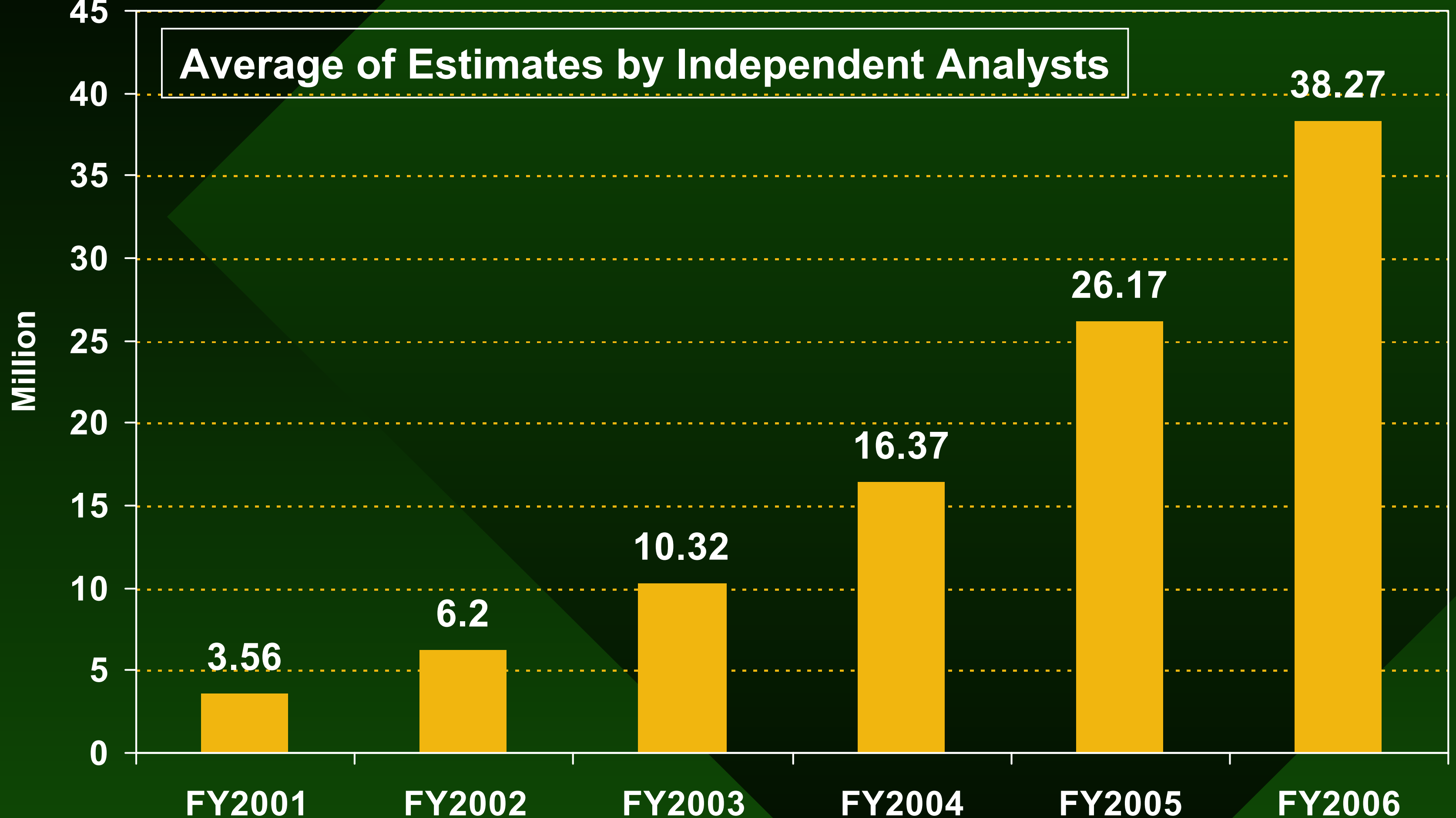
- **Consolidation**
  - Mergers & acquisitions to consolidate footprint
  - 4 Group companies account for 67 % of the subscriber base.
  - M&A activity is the market response to the number of operators allowed as per policy.
  - In most European & Asia Pacific countries, the average number of cellular operators is between 3-4.
- **Innovative pricing**
  - Prepaid used as an entry strategy – prepaid cards are available for as little as Rs. 300 per month.
  - Lower airtime & flexi tariff packages for postpaid users
- **Cost Efficiencies**
  - Significant reductions in operating costs per subscriber – primarily due to increased subscriber base.
  - Reduction in handset costs
  - Flourishing second-hand handset market.

Fall in Average Revenue Per User



Independent analysts have projected that the ARPU will continue to drop over the next 4 years and would stabilize at around Rs. 500 per month.

Growth in Subscribers



On an average, analysts estimate that the number of cellular subscribers touch around 40 million by FY 06. It may be noted that the effect Of WLL(M) has not been factored into the projected growth.

What do Consumers Want

- Corporate image of Service Provider.
- Good Network Quality
- Range of Value added services –voice mail, information services, ease of use, etc.
- Affordable Tariffs.
- Free Incoming Calls.
- Simple Tariff Plans
- Flexible Offerings – i.e. choice to consumer
- Improved Customer Care – not just in terms of ease of getting through, speed of response, but also the ability of the customer care staff to resolve problems.

- In the case of post-paid subscribers, the impact of the above on retention is lower than in the case of pre-paid subscribers who are far more likely to switch service providers.

Cost of Cellular Communications

In USD

	China	India
Handset Cost	70+	40+
Monthly Rental	5.625	6.00
Outgoing Call Charges per minute	0.045*	0.04
Incoming Call Charges per minute	0.045	0.04

Despite China having almost double the purchasing power of India and despite a lower cost structure due to lower government levies, the cost of cellular communications in India is almost comparable with the tariff structure prevailing in China.

* For the first 3 minutes only USD 0.045, but thereafter, USD 0.045 / minute.

Possible Pitfalls

- Backdoor entry of WLL(M) as a fully competitive mobile service.
- Excessive & unhealthy market fragmentation.
- Anti-competitive Behavior by SMP operators.
- Inequitable interconnection arrangements.
- Sub-Optimal Allocation of Spectrum.
- Interminable delay in the introduction of CPP.

Thank You

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