Intense Competition

—Prakash Ranjalkar
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On outsourcing as a viable strategy

The concept of outsourcing of passive telecom infrastructure has been accepted by every one in India with all the leading operators embracing the model. Penetrating further into rural areas while maintaining financial viability would require aggressive passive infrastructure sharing.

Incumbent operators would benefit by outsourcing tower services to independent tower companies as they are looking at aggressively cutting operating costs.

The new telecom operators will use the existing infrastructure of tower companies for launch, as it will give them the shortest time to market at reasonable operating costs.

As the competition intensifies and telecom operators expand their network in rural India, ARPU on pure voice minutes may fall further resulting in pressure on profitability. In such a scenario, all the telecom operators are opting for passive infrastructure sharing.

On turn-key service providers

GTL Infrastructure offers its passive infrastructure for sharing among the service providers. It also takes on the responsibility of operations and maintenance of the sites and offers the availability of the sites as per SLA.

On how the entry of new operators can alter the market

Telecom Regulatory Authority of India (TRAI) has set period specific rollout targets for the new licensees. Failure to achieve these targets will result in penalties for the new operators. The new entrants also face an already crowded telecom market with up to 7 competitors per circle, thus intensifying competition. Thus, they require tower infrastructure in place over a short period of time to garner subscribers and meet rollout obligations.

Additionally, the expected pressure on ARPU post their entry, calls for a lean CAPEX model, to enable them to run a start-up mobile operation profitably. All these factors would entail complete outsourcing of tower requirement to tower companies.

On the rural market

As part of their long term strategy, the operators are continuously expanding their network footprint in semi urban and rural areas where nearly 70 percent of India's population resides. This causes cost optimization challenges for the operators, further accentuated by low ARPU in these areas. Shared infrastructure offers a ready solution by reducing the expenditure incurred by the operator on deploying and maintaining the infrastructure. This helps the operators to increase their market share in a cost effective way.

On an aggregate basis, based on data from industry associations and internal estimates, the current rural ARPU is around Rs. 165. Marginal rural customers are being added at progressively lower ARPUs. It is estimated that incremental rural subscribers will be 20 percent less profitable than the existing rural subscribers. Thus, returns generally expected by operators can be sustained in a few areas only. The cost parity between owning a tower and leasing tower space thus becomes very disparate. For an operator, the lower per subscriber profitability and higher cost of reach, as well as operating leverage needed justifies the need for infrastructure sharing in the rural areas.

On impact of 3G

The impending auction of third generation (3G) licenses is expected to take place in India in the later half of 2009, followed by WiMAX licenses shortly thereafter. Industry experts suggest that this represents an opportunity for setting up of almost equal or more than half of the current overall tower portfolio in India. Since operators will be making large investments in license fees, they will be more than willing to share passive infrastructure for a short break even period.

The higher data rate and reliability required for a 3G data session will force operators to offer high quality networks, which in turn will necessitate more cell sites for 3G coverage. ■