India Telecoms

TELECOMS

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EQUITY RESEARCH

Data price cuts – gimmicky but important?

June 27, 2013

Quick Note

Telcos cut data tariffs by ‘80-90%’ – we are concerned about capex

- **Noise vs substance:** In recent weeks, Bharti, IDEA, Vodafone and Tata DoCoMo, have cut their "pay-as-you-go" data tariffs by 80-90%. The headlines look catchy, but it applies to only certain plans or when the customer exceeds the existing allowances. Yet again, everyone is following each other, which again shows that trying to differentiate in India is difficult. *These tariffs imply pricing of around 1p/10Kb or US2c/MB, which isn't that cheap compared to the regional peers.* For example, data pricing in Indonesia is around US1c/MB and Singapore is around US2-5c.
- **The current *data-bundles* appear a lot cheaper in India**. The current data bundles are priced at around 20p/MB or US0.4c/MB, which is cheaper than these ‘pay-as-you-go’ plans. But the ‘pay-as-you-go’ plans could act as a hook to attract new customers (given its convenience) and can also help with churn reduction. Moreover, data penetration rates are currently sub-10% and data revenue contribution is 7-9%. So at this stage, we don’t think these price cuts alone will have a material downside impact on earnings as pay-per-use subscribers is a still a very small part of the total usage/ base.
- **We remain concerned about capex.** *We don’t dismiss the inherent data potential in India, but are concerned about how much it can grow given the lack of spectrum and limited capex spend*. Refer to our recent report *Reviewing capex differences, dated 4 March 2013*, where we compare the Indian capex spend (and spectrum allocations and usage) to the Indonesian and the Chinese. One observation, since 2008, the total cumulative capex spend of the three Indian telcos is USD23bn, which is 1/10 of Chinese telcos’ capex spend over the same period.
- As we are seeing in Indonesia and various other markets, the lack of spectrum and networks is starting to catch up as data usage picks up. The issues are around capacity (3G nodes) and fibre-backhaul, which is increasingly necessary (and expensive) as data usage picks up.

Our take on Indian telcos

Recent share price performances have been mixed for Indian telcos – depreciating INR is a concern, while the core operating trends are expected to be more resilient this quarter. We maintain our neutral stance on the sector as valuations still don’t look inexpensive.

Key details on recent tariff changes

- For 2G data, Bharti’s data pricing is down to 1p/10 KB, while peers have reduced the price to 2p/ 10 KB from 1-2p per KB – this amounts to 80-90% reduction on the "pay-as-you-go" tariffs. *(Source: “After Vodafone & Airtel, Idea slashes data tariff by 90% in eight circles”, Economic Times, 21 Jun, 2013).*
- Despite these cuts, the "pay-as-you-go" pricing still remains much higher than implied data prices on the packs.

Research analysts

ASEAN Telecoms

Sachin Gupta, CFA - NSL
sachin.gupta@nomura.com
+65 6433 6968

Neeraja Natarajan - NSL
neeraja.natarajan@nomura.com
+65 6433 6961

Pankaj Suri - NSFSPL
pankaj.suri@nomura.com
+91 22 4053 3724

Gopakumar Pullaikodi - NSFSPL
gopakumar.pullaikodi@nomura.com
+91 22 4053 3733

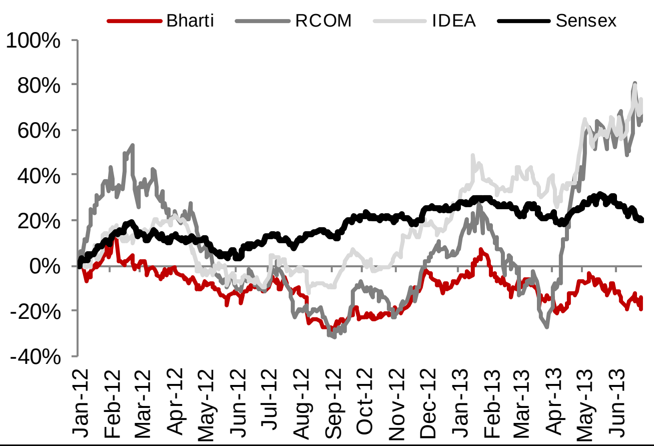
Shweta Dixit - NSFSPL
shweta.dixit@nomura.com
+91 22 672 35457

- In most of the cases, 2G data price cuts have been done in circles where these telcos didn't win 3G licenses.
- Bharti has also reduced its 4G data tariffs by 31% in four circles, namely, Bengaluru, Pune, Kolkata and Chandigarh, and has introduced data plans at lower price points of Rs450, Rs650 and Rs750.
- 3G data pricing has been tweaked only by Tata DoCoMo (90% cut); it didn't participate in data rate cuts last year.

Data – how has this trended?

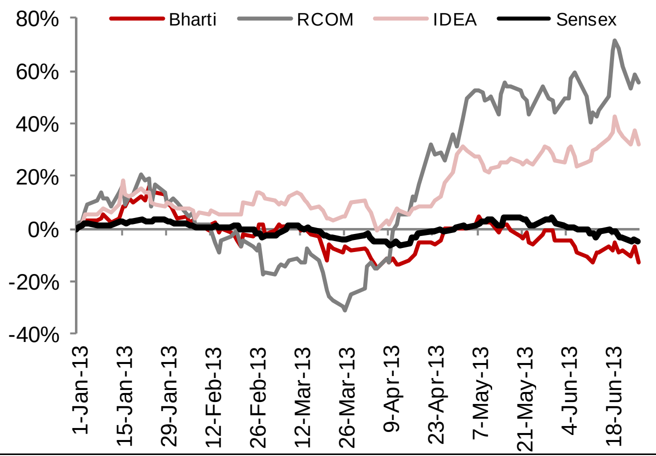
- Data (mobile internet, excl. SMS) is growing rapidly and is up 60-70% y-y in the past few quarters for Bharti, eg, although from a very small base.
- Within this pricing has come down by over 20% we estimate, but has been more than offset by usage growth of close to 100% y-y.
- Data adoption by subscribers has moved up from 19% to 23% only (for Bharti), and there is room for this to improve.
- While these early indicators are positive, we are still not at the inflection point for data and 3G adoption hasn't picked up pace as one would have expected (still less than 10% of the base). This is the key – and will be driven by a combination of improving coverage, handset ecosystem, awareness as well as affordability.

Fig. 1: Price performances for Indian telcos since Jan 2012



Source: Bloomberg, Nomura research

Fig. 2: Price performances for Indian telcos since Jan 2013



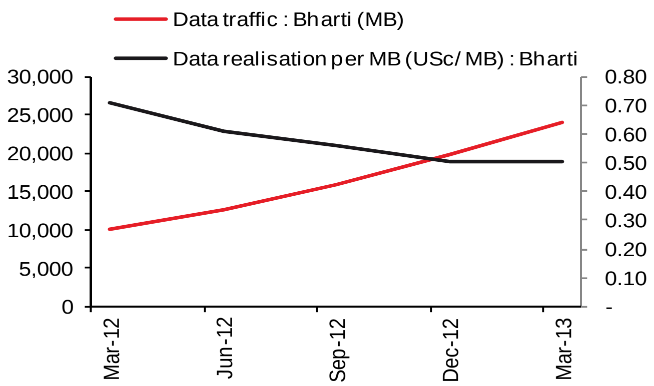
Source: Bloomberg, Nomura research

Fig. 3: Indian telcos – operating trends

	Bharti	IDEA	RCOM	Vodafone
Data Subscribers (mn)	43	26	29	37
as % of total subs	23%	22%	24%	24%
3G subs (mn)	6	5	7	3
Data Usage per sub (MB)	187	na	319	na
Data ARPU (INR)	55	55	na	na
Pure data (% of revenue)	7%	7%	na	9%

Source: Company data, Nomura research

Fig. 4: Price vs traffic growth for data (Bharti)



Source: Company data, Nomura research

Fig. 5: Summary of recent price cuts

Company	Service	Change in data prices (%)	Circles
Bharti	2G	90%	UP East, Haryana, Madhya Pradesh, Maharashtra, Kerala, Gujarat, Kolkata, Punjab and Orissa
IDEA	2G	90%	T.N. & Chennai, Karnataka, Kolkata, West Bengal, Assam, North East, Bihar & Orissa
Vodafone	2G	80%	Karnataka, UP (West), MP & Chhattisgarh
Bharti	4G	31%	Bengaluru, Pune, Kolkata & Chandigarh
Tata Docomo	2G & 3G	90%	All circles covered under GSM technology

Source: Press articles such as *"After Vodafone & Airtel, Idea slashes data tariff by 90% in eight circles", Economic Times, 21 Jun, 2013*, company data

Fig. 6: Indian telcos – data plans

Operator	Plan	Tariff (INR)	Data offered (MB)	Implied price in paise/ kb
Bharti	2G data	22	125	0.02
		32	210	0.02
		57	375	0.02
		72	1000	0.01
		125	1000	0.01
		246	2000	0.01
Bharti	4G data	450	2000	0.02
	Postpaid	650	3000	0.02
		750	4000	0.02
		999	10000	0.01
IDEA	2G data	14	90	0.02
		17	110	0.02
		28	175	0.02
		98	650	0.02
Vodafone	2G data	17	75	0.02
		27	175	0.02
		58	375	0.02
		99	650	0.02
		125	1000	0.01
		149	1200	0.01
Vodafone	3G data	26	25	0.10
		44	150	0.03
		102	300	0.03
		251	1000	0.03
		850	3000	0.03

Source: Company data

Appendix A-1

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