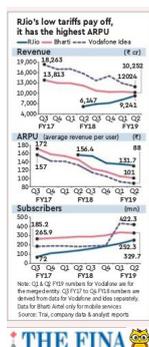


Subsidizing VoLTE phones to free 900MHz spectrum a winning strategy, cutting off low-paying users is a good idea

With over 60 million JioPhones sold so far, and the company on track to reach its 100-million target by the end of March, and with over 250 million subscribers already, it is clear RJio has won Round One of the telecom fight. While the older telcos like Bharti Airtel, Vodafone and Idea (the last two have now merged) did a great job in expanding the country's telecom penetration and in lowering tariffs, RJio took it to an altogether new level with its 'free' voice model.

And while its 4G model meant only the well-heeled with their smart-phones could use RJio, the company quickly came out with a low-cost 4G feature phone—while the first phone cost Rs 1,500 and consumers were refunded this over three years, the latest offering costs just `501 if a used feature phone is surrendered.

While the older telcos may have been right when they said RJio's prices were predatory—that is, they were below cost—subscribers have got so hooked on to its low-cost data service, they end up paying RJio 30% more than what Bharti Airtel earns per user (ARPU, in jargon) and 50% more than Vodafone Idea. RJio's low-cost data strategy along with 'free' voice has clicked and, like it or not, future rounds of the telecom wars will be fought on this model.



While Bharti Airtel did come up with a Rs 2,899 Karbonn smartphone in response, and users got Rs 1,500 of this back over 36 months, it needs to up its offering. So far, the company has said it doesn't want to fight the subsidy game, but it may wish to rethink the strategy since this is not just about paying to retain customers who might be attracted to RJio's free voice by paying a one-time Rs 501 charge, it is also about freeing up valuable spectrum.

Bharti Airtel and Vodafone Idea both need to improve the quality of their services and while they are offering 4G in the 1800MHz and 2100MHz bands, the quality will improve if they use lower bands like the 800MHz that RJio uses. Both the telcos already have 900MHz spectrum in most top circles that can theoretically be used, but this spectrum is used by their 2G subscribers who, mostly, are low-paying. If, through subsidies on a 4G phone—either a feature phone like RJio's or a smartphone—they can move these subscribers out, the 900MHz spectrum can easily be used for 4G services.

Buying a 5 MHz chunk of 700MHz spectrum, at even the 2016 auction's reserve price of Rs 11,485 crore per MHz will cost the two telcos Rs 114,850 crore. If, on the other hand, these telcos provide a Rs 1,000 per phone subsidy to 400 million subscribers and move them off the 900MHz frequency, that would cost Rs 40,000 crore. The reserve price has been recently lowered to Rs 6,568 crore, the final bid will depend on the demand. At some point, sooner rather than later, the older telcos need to consider the option.

An even more important reason for doing so is the move—the right move—by telcos like Bharti Airtel and Vodafone Idea to start disconnecting low-end subscribers who pay them less than Rs 35 per month right now. Doing this will immediately mean their average revenue per user (ARPU) will rise significantly as subscribers using dual-SIMs will now be forced to give one up. With Trai lowering IUC charges so much, telcos can't make much money on subscribers who make very few calls but receive a lot more—these customers, typically, do a Rs 10 recharge per month and then just get incoming calls free. Several analysts are now penciling in a revenue growth for both firms—it has been declining for several quarters till now—thanks to this move to retain only customers who pay more than `35 per month.

But, since both Bharti Airtel and Vodafone Idea will now be charging consumers a minimum of Rs 35, there is not much of a difference between this and the Rs 49 that RJio charges as a minimum monthly tariff. That is, they are more vulnerable to subscribers leaving now than in the past; more so, if RJio decides to lower effective prices again.

Both Bharti Airtel and Vodafone Idea will have to bring in a lot of money to repair their balance sheets—while Vodafone Idea has had a negative interest cover for five quarters due to ebit losses, Bharti Airtel's India business has been in this situation since the September quarter; this is why it was put on a ratings watch by Moody's last month—right now, the telco is just above junk rating.

While it is not clear if the government will lower its rapacious levies—if it doesn't, this will delay the recovery that much longer—for now, the battle is going to be fought on entertainment and other offerings, assuming each telco's speed and coverage are on par. While Bharti Airtel claims it has superior and exclusive content, and that its network is superior to RJio's—while Trai tests show RJio's network is faster, those by Ookla and OpenSignal show Bharti Airtel is faster—if network quality and the ability to do more cash-burn is critical, this once again underscores the need to clear up the 900MHz band for 4G services. That will require that Trai doesn't interfere with Bharti Airtel's and Vodafone Idea's plans to remove low-paying subscribers from their networks—it has sent Bharti Airtel and Vodafone Idea letters on their plans. So far, many of Trai's actions have hurt the incumbent players more, and the regulator's unfortunate stand on ' [net neutrality](#) ' ensured that advertisement-driven revenue models—like Airtel Zero—could not take off.

The older telcos will also need to look at other revenue models to make their offerings more attractive, even subsidise them further if RJio decides to do this. This means payment services, selling of mutual funds, DTH, etc.