

Limited 4G phones mean price cuts only at top-end

Those expecting all telecom companies to rapidly move towards Reliance Jio-style 'free' voice – with 30 million customers in under two months, Jio is attracting customers faster than most expected – would do well to think about what Bharti Airtel managing director Gopal Vittal said in a series of interviews to newspapers on Wednesday. Only 25% or so of users for the telco – and that applies across the industry – have smart-phones, and those with 4G handsets is a fraction of this. So while customers will be attracted to Jio-style 'free' voice, in order to be able to switch to it, Vittal seems to be saying, they need to spend around Rs 4,000 to buy a 4G handset, effectively putting this out of reach of most users. The speed at which 4G handsets come into the market, and the rate at which their prices fall, will then determine how fast the industry will transition to Jio-style 'free' voice minutes bundled with data – to the extent Jio helps reduce handset prices, data usage will rise and will benefit all telcos who have spent large amounts on data spectrum.

Of course, not being able to transition to Jio doesn't mean customers won't look for better deals on even their existing phones. Customer dissatisfaction is reflected in the monthly 'churn', or the

proportion of customers that migrate to another telco. Bharti Airtel's 'churn' in the September 2016 quarter was up to 3.7%, up from 3.3% in the March 2016 quarter and 2.5% in the March 2015 quarter – this is critical since, as Vittal told FE, a 1% reduction in the churn can lead to an extra Rs 7,000 crore in revenues'; 'churn' for Idea was as high as 5.4% in the September 2016 quarter. Though it will be a while before there are enough reasonably-priced 4G handsets – by 2020, estimates are India will have 670 mn such handsets – as Vittal told FE, the churn among customers paying over Rs 1,000 a month was around 1%. If 12% of top customers are moving out each year, incumbent telcos will do almost anything to retain them and will be forced to match tariffs with Jio at this end of the market. While a real sense of Jio's customer base will be available only after it starts charging subscribers next month, customer tariffs falling at the top-end of the market means a big squeeze in revenues and profits. The only hope is that customers start consuming so much data – from movies and television serials – that the increased revenues from them compensates for the lower tariffs for data/voice. That's easier said than done – for now, deep pockets is what will determine which telcos survive.