FitchRatings

FITCH: FURTHER DETAILS NEEDED ON INDIAN TELECOM POLICY

Fitch Ratings-New Delhi/Sydney/Singapore-11 October 2011: Fitch Ratings says in an upcoming report that the Indian National Telecom Policy, 2011 (NTP) draft, announced on 10 October 2011, focuses on new long-term regulatory guidelines but does not address the details underlying Fitch's shorter-term credit concerns. Therefore, the agency expects regulatory uncertainty to continue over the short-term until the final policy, due by end-December 2011, provides specific policy details.

Fitch's key sector credit concerns include the imposition of one-time charges for excess spectrum over 6.2MHz, spectrum renewal fees, spectrum re-farming, higher spectrum charges and rigid M&A regulations.

"Regulatory risk for Indian telcos is significant and larger telcos, including Bharti Airtel could face significant cash outflows over the medium term due to regulatory decisions," says Nitin Soni, Analyst in Fitch's Asia Pacific TMT team.

The NTP draft noted that spectrum will be delinked from licences and a separate spectrum act will be introduced to govern spectrum allocation, sharing, pooling, trading and pricing. This development and the intention to allow voice over internet protocol (VOIP) could lead to fiercer competition primarily from broadband wireless access (BWA) spectrum winners should they obtain voice licences. BWA telcos include Reliance Infotel, backed by Reliance Industries Limited, ('BBB-'/Stable).

Fitch believes that draft NTP's indication to remove roaming charges (charges for connecting calls while travelling to different states within India on the same network) is negative for Indian telcos as the loss of roaming revenue (4%-7% of overall revenue) is likely to more than offset any positive effect of lower subscriber churn. The initiatives to provide infrastructure status to wireless capex and to set up a Telecom Finance Corporation to fund projects will be positive over the medium-to-long term.

Fitch also notes that draft NTP provided no relaxation of restrictive M&A regulations. The Telecom Regulatory Authority of India's (TRAI) recommendations to require a minimum of six operators per circle, for entities not to have over 30% market share or maximum spectrum of 14.4Mhz for GSM and 10Mhz for CDMA, effectively block consolidation in the sector.

"Fitch believes that consolidation among the existing 10-13 telcos in each circle is inevitable and that the Indian telco sector can sustain at most six or seven telcos in the long run," says Mr Soni.

Fitch notes that the Indian telco industry is an over-crowded market with high regulatory risk. Currently, only the top four private telcos are EBITDA-positive. However, the operating environment has improved after Bharti's July 2011 initiative to increase on-net pre-paid and SMS tariffs by 20% was followed by major competitors, providing some relief to their margins. The industry's voice average revenue per user has now stabilized at the INR100-INR200 (USD2-USD4) levels. Fitch believes that the government's intention to develop policy to enable loss-making companies to exit the market and return their spectrum may appeal to weak newer telcos.

The special report titled "Indian Telecom Services: Regulatory Uncertainty to Continue" will be available shortly on www.fitchratings.com

Contact:

Nitin Soni
Analyst

+91 11 4356 7239
Fitch Ratings India Private Limited
601-609, 6th Floor, Prakash Deep Building
Tolstoy Marg, New Delhi - 110001

Steve Durose
Senior Director
+61 2 8256 0307

Sahil Aggarwal
Analyst
+91 11 4356 7242

Media Relations: Bindu Menon, Mumbai, Tel: + 91 22 4000 1727, Email: bindu.menon@fitchratings.com; Shivani Sundralingam, Singapore, Tel: + 65 6796 7215, Email: shivani.sundralingam@fitchratings.com.

Additional information is available at www.fitchratings.com.