

# Indian 3G Auction Results and Their Implications

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## Abstracts

The hard work begins now for Indian operators

The Indian mobile sector now stands at a key point as it begins the long, slow transition from the present land-grab for subscriptions to service innovation. Despite the intensely competitive environment and regulatory uncertainty, all of the winning bidders have made strong bets on the Indian mobile sector and are clearly there to stay. The fragmented 3G coverage maps will have to be filled in at the next proposed auction round in 2014.

Individual operators will feel varying degrees of financial pressure, but operators will now have to work hard to realign their balance sheets to cope with rising debt levels that will result from the raising of capital required for 3G network deployments. Operators will also have to factor in other prospective costs such as increased license fee burdens if the TRAI's new recommendations on licensing and spectrum management are adopted as policy by the DoT. As per Ovum calculations, incumbent operators, such as Bharti, Vodafone, and Idea, would have to pay at least \$4 billion in spectrum and licensing fees combined, in addition to the combined \$6.6 billion they have already bid for 3G.

Bharti, Vodafone, and MTNL all have strong cash reserves and are well placed to absorb rising debt. Reliance, Idea, and Aircel will be more dependent on external borrowings to finance their respective deployments and maintain their momentum. In fact, at the time of writing, Reliance's board had already approved a possible 26% strategic stake sale to inject fresh capital into the company.

The key will be to quickly drive revenue growth from 3G services. 3G will provide operators with an opportunity to escape the vicious circle of price competition with differentiated, data-centric services. The lower cost of providing voice services will also help margins and provide sorely needed capacity relief in major markets. Moreover, time to market for 3G services should be shorter than the global norm since many

networks are supposedly 3G ready and require only channel card upgrades as opposed to a full overlay. On the device side, several 3G devices have already been seeded by many of the major OEMs, which will form a good foundation ahead of the inevitable promotional activities that are customary with new service launches by operators.

## Contents

Executive summary

In a nutshell

Ovum view

The hard work begins now for Indian operators

Key messages

The 3G auction exceeded all expectations

No operator has secured pan-India coverage

Aircel and Idea are the big surprises of the 3G auction

Indian operators have their work cut out for them

Analysis

The auction was a relative success

Several “winners” emerge with fragmented coverage

Aircel and Idea are the big surprises of the 3G auction

The biggest winner is the Indian government

## List Of Figures

### LIST OF FIGURES

Figure 1: Total 3G bid amount progression

Figure 2: 3G bid amount progression by day

Figure 3: Total 3G bids by operator compared to number of circles won

Figure 4: Percentage coverage of existing 2G subscriber base

Figure 5: Relative premium paid by operator to subscriber coverage

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