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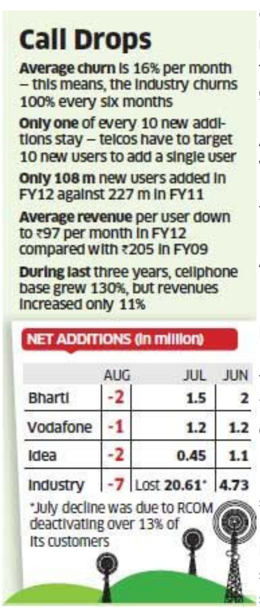
Drop in subscribers of Bharti Airtel, Vodafone and Idea for the first time in decade

NEW DELHI: Mobile phone subscriber numbers of the country's largest GSM operators - BhartiAirtel, Vodafone and Idea Cellular - fell for the first time in over a decade in August, dealing another major blow to India's telecom story, as growth petered out and financially-stretched telcos withdrew freebies.

While telecom regulator Trai is yet to release the August subscriber data, it is learnt that the three GSM operators have jointly lost about 5 million customers. The trio, which accounts for about 67% of the sector's revenues, added a total of 3.16 million subscribers in July and 4.42 million in June.

India's overall mobile user base fell for the first time in July 2012. But over 99% of the 20.71 million decline in July was due to a single company, Reliance Communications, deactivating over 13% of its customers who had not used their phones for more than 60 days.

Experts and industry executives said the fall in subscriber numbers in August could be attributed to the fact that key markets in the country were reaching a saturation point, and many customers have not renewed their second or third mobile connections, as telcos facing margin pressure have cut incentives and dealer commissions. The trend of falling numbers is likely to continue in the next three-six months.



"August's performance was not about de-activating customers, but reflected a decline in actual growth. With metros and other key regions getting saturated, there are not many genuine new customers left to attract. Besides, incumbents are not offering any freebies or lower prices for customers to switch to them. The non-active connections that are going away are higher than their gross additions," said Jaideep Ghosh, partner, KPMG Advisory Services.

A top executive with a leading GSM operator said this scenario was applicable to all players. "All mobile phone companies withdrew freebies to new users over the last couple of months," he said.

This led to many customers not renewing their second or third mobile connections," the telecom official said.

According to industry estimates, the customer base of Bharti and Idea fell by about 2 million each in August to 186.8 million and 115.2 million, respectively, while Vodafone's is learnt to have dipped by about a million to end the month with around 154 million.

Bharti, Vodafone and Idea declined to comment on their August numbers.

The fall in subscriber numbers does not mean that less people are using mobile phones. As per Trai data, only 76.42%, or about 700 million, of the 914 million mobile connections in the country are active users while the rest constitute dual or multiple SIM customers. It is the dual and multiple SIM customers that are shedding their connections.

India was one of the fastestgrowing telecom markets in the world, and in their peak growth period, telcos added 20 million subscribers a month.

But the mobile sector has lost its gloss over the last three years. Savage price wars have destroyed the sector's profitability and sent revenues plunging, with Bharti Airtel, the country's largest telco, witnessing a fall in profits for 10 straight quarters. The 2G scam scared off investors and soured business for many players. In addition, the sector is weighed down by regulatory and policy uncertainties.

Executives with several telcos said the August drop would continue for the next three to six months. "We are mandated to give 60 days for customers to renew their connections. As more customers fail to do so, the numbers will reflect in the coming months to December," said the spokesperson for a GSM operator.

An executive with a GSM operator said gross additions had fallen significantly over the last few months, touching a new low in August, since operators, facing severe margin pressure, were cutting on dealer commissions and distribution, both of which are key to attracting new users.

"Customer acquisition costs had escalated sharply. In saturated markets, telcos have stopped pushing SIMs and cut down on this cost," he said.

A recent note by broking firm Motilal Oswal said GSM incumbents have reduced channel commissions paid for subscriber acquisitions from August 2012. If sustained, this initiative should alleviate margin pressure by controlling 'rotational churn', but would also impact subscriber additions/traffic/revenue in the near term," said the firm's telecom analyst, Shobhit Khare.

But Prashant Singhal, partner, Ernst & Young, said operators could not attribute falling customer numbers to high churn rates. "New customers come in when there is geographic expansion, but this has been very limited in the last 6-12 months. The existing market is facing saturation and the overall economic scenario is not helping. At the same time, the industry is not investing in network coverage because of regulatory uncertainties," he said. Singhal added that telcos were unlikely to commit to any fresh investments until they had clarity on the upcoming auctions, refarming of airwaves, renewal of mobile permits and the 3G roaming pacts A top executive with a dual-technology operator said the scenario with RCOM and Tata Teleservices was different. "Dual-technology operators had a high proportion of non-active users that was being cleaned up. But performance of incumbent GSM telcos, who have over 90% active customers, shows that growth has petered out for the entire sector," this executive explained.

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