

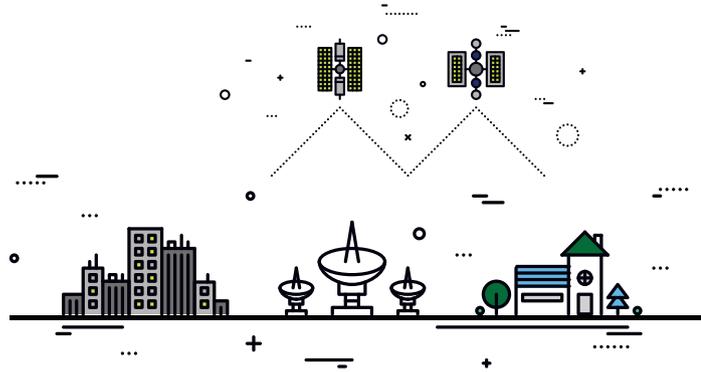


MVNO 2.0

Opportunity for entities aspiring to be part of Indian telecom ecosystem

September 2016

Introduction



Over the last decade, Indian mobile industry has transformed the personal connectivity and customer service experience both in terms of the consumption of basic communication services and data driven enriched content and mobile applications.

As part of this transformation, India has achieved significant milestones: 1 billion mobile subscribers, 4G rollout by incumbents and greenfield Mobile Network Operators (MNOs), and 200 million smartphones (2nd in the world). In addition, subscribers are demanding choice of more services and superior customer experience, prompting MNOs to invest more in the Direct-to-Consumer (D2C) business model, with the idea of providing compelling third party content and innovative applications catering to the needs of wider target segments. However, there are some critical gaps which need to be addressed—the mobile industry may need new players who, by leveraging their capabilities and strengths, can further compliment the MNOs.

As a result of the policy initiatives driven by the government, the changing regulatory environment, and the advent of new competition, the mobile industry is expected to go through a MNO consolidation phase, prompting another transformation journey with aggressive tariff cuts on both voice and data. Due to this and other factors, MNOs would try to offload certain target segment services to these new players.

As the mobile industry gets ready to embrace this imminent transformation journey, end-to-end customer experience and delight will gain increasing focus. Whilst MNOs are focusing on providing better customer service, there are challenges in terms of catering to varying customer demands for existing target segments and positioning new services for new target segments. In view of these challenges, several questions arise such as the following: Can MNOs afford to ignore the niche and other micro segments? If not, what options do MNOs have? Is there room for Mobile Virtual Network Operators (MVNOs) to collaboratively work with MNOs? How will the recently unveiled MVNO guidelines impact this next transformation journey?



Can MVNOs complement MNOs?

One option for MNOs is to explore the possibility of working with MVNOs who, in the context of India's diverse and highly segmented market, can add value by focusing on providing customer service and fulfillment to niche and micro segments (demography and/or geography based).

For MVNOs to setup shop in India, one needs to understand the current regulatory environment in terms of the prevailing policies and guidelines and how various government digital initiatives can be leveraged. In addition, the success of MVNOs will depend largely on their Go-To-Market strategy, having sound

Indian business operational know-how and establishing win-win relationship with MNOs.

Since TRAI's unveiling of new MVNO guidelines in March 2016, some global MVNO players are already initiating their first steps to enter the Indian market. The following sections cover our initial thoughts on the current telecom landscape and the new MVNO guidelines, some key considerations for MVNO players, and opportunities, challenges, and recommendations.



Current Telecom Landscape

To date, three national telecom policies have been announced by the Government, starting with the National Telecom Policy (NTP)-1994 followed by NTP-1999 and the recent NTP-2012. One of the significant changes in the NTP-2012 was to move towards a Unified License (UL) regime to exploit the attendant benefits of convergence, spectrum liberalization, and facilitate delinking of the licensing of networks from the delivery of services. This would enable the MNOs to optimally and efficiently utilize their networks and spectrum by sharing active and passive (depending on the sharing model) infrastructure. MNOs had been experimenting with the reseller model, i.e., to facilitate a sub-brand at the service level, both wholesale and retail.

On 31 May 2016, the Department of Telecommunication (DoT), post recommendations from Telecom Regulatory Authority of India, issued guidelines for grant of Unified License Virtual Network Operators. For obtaining UL MVNO, companies will have to pay a one-time non-refundable entry fee for an authorization of each service they want to provide and for each service area where they wish to operate. The MVNOs will be treated as extension of MNOs and, hence, would not be allowed to install equipment interconnecting with network of any other MNO.



Guidelines issued by Department of Telecom (DoT) for grant of Unified License for MVNOs

VNO can set up own access network equipment viz. Base Transceiver System (BTS), etc. but cannot own/install gateway equipment interconnecting with the network of other MNOs.

Minimum paid up equity capital and net worth required may go up to INR 100 million (USD 1.5 million) depending on the nature of the services for which application has been made. Additional bank guarantees will need to be submitted based on choice of circles

Foreign holding in the applicant company to be compliant with Foreign Direct Investment (FDI) guidelines [allowed up to 100% with government approval].

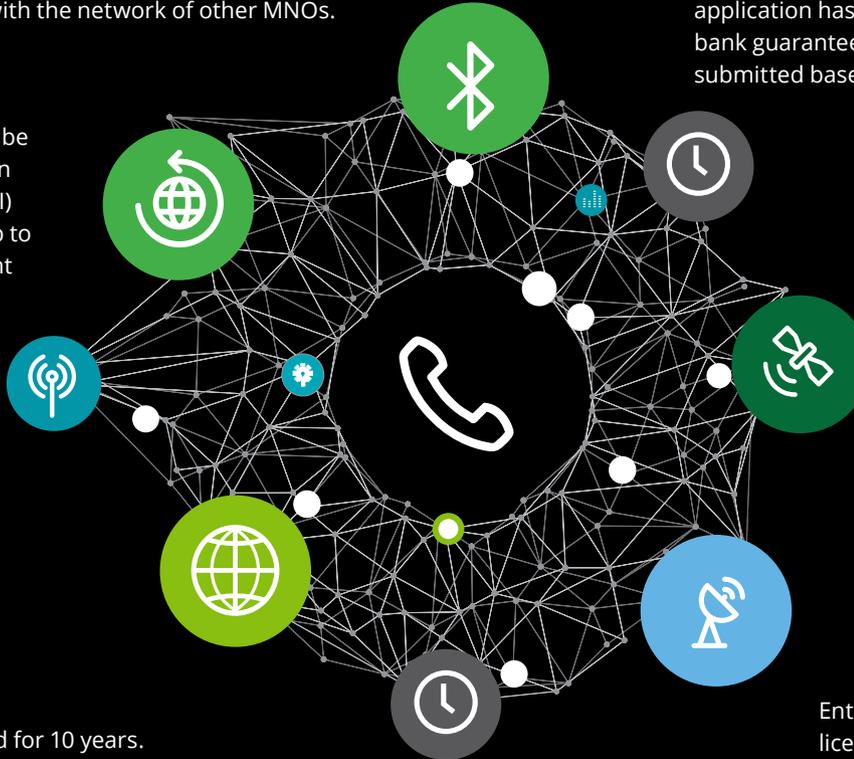
Applicant to be an Indian company registered under Indian Companies Act, 2013.

License to be issued for 10 years. Licensor can request review after 3-4 years depending upon the technological developments and experience gathered.

Applicant can apply for Unified license VNO (All services), Access service (Service Area – wise), Internet service and other specified services.

Entry fee on signing of license agreement – One-time non-refundable fee for each service and service area, subject to maximum amount of INR 75 mill.

VNOs will be allowed to have agreement with more than one MNO for all the services other than access services and such services which need numbering and unique identity of the customers.



Advent of MVNO and who can become a player - Key Considerations

The participation in the last three auctions has resulted in debt in the books of MNOs. With growing debt, managing the tightrope walk of Return-On-Investment (ROI) has become a major challenge for MNOs. To overcome the challenge, MNOs should look at MVNOs as partners and chose to work with them by opening

up some under serviced customer segments—demography wise and some underutilized networks capacities and assets —geography wise. With this thought process, entry of MVNOs could be seen as an opportunity for MNOs to monetize their underserved segments and underutilized assets.

The entry points of an MVNO may be categorized in the following:

Resource sharing: There are multiple circles and MNOs who have excess spectrum might be amenable to a partnership with either other MNOs or may choose to offload capacities to other resellers.

Making way for resellers: MVNOs have proved to be a source of regular income for the MNOs based on their performance

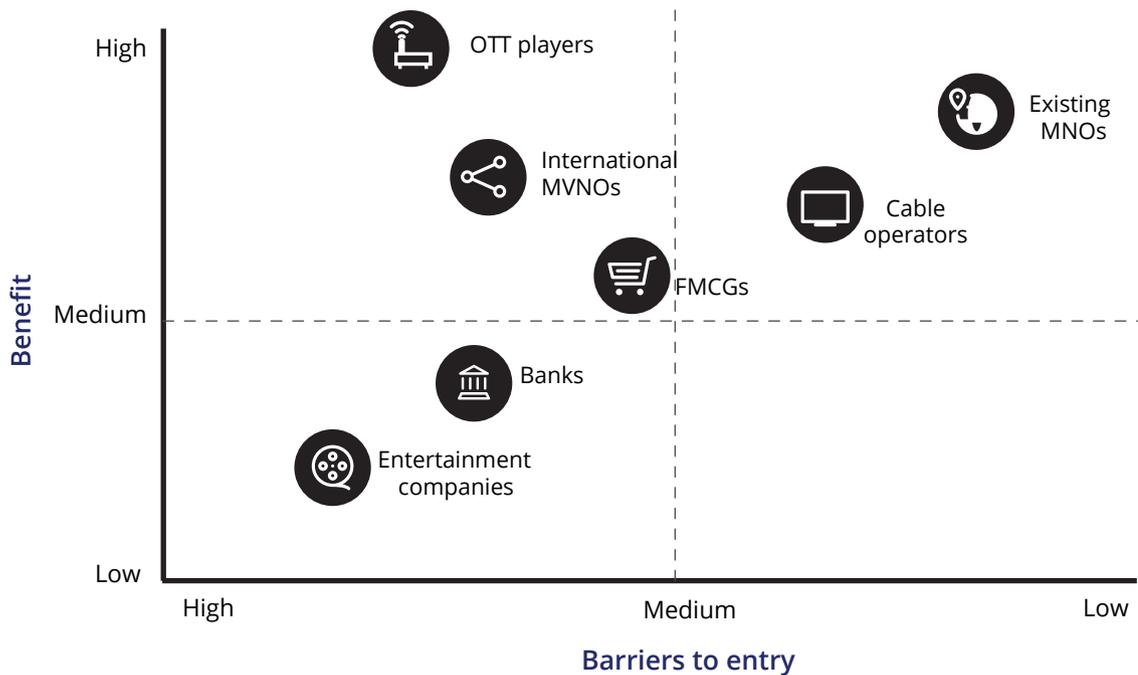
in global markets. MNOs who are in the process of defining two-sided business models with the intention to open up their assets and capabilities in the form of Application Programming Interface (APIs¹) to support third party business entities need to have resellers who can work with various industry vertical players like banks, e-commerce companies, etc. Putting in place a wholesale pricing

1. APIs: API stands for Application Programming Interface and they help in the easy integration to the software module providing access to a particular function. Example: location API provides access to MNO subscriber's location coordinates

structure to monetize MNO assets facilitates them to identify suitable resellers and, subsequently, enter into a business contract. This approach possibly helps the MNOs realize better utilization of its assets and capabilities leading to higher topline and ROI.

Entry of domestic industry vertical players as MVNOs: Various players,

both domestic and international, who have been on the contours of the connectivity business, as well some established OTT players, DTH operators, broadband players, FMCG, Banks, larger retail enterprises, and larger content and media players, now have the opportunity to enter the main stream telecom services market as MVNOs.



Source: Deloitte Analysis



Opportunities for MVNO players

Bespoke products for highly penetrated markets: Highly penetrated markets, like Delhi, Mumbai, and Chennai, may have customer segments that are "under-served" in specific aspects of their service experience. Such clusters can be targeted by an MVNO.

Rural penetration: Rural India offers promising growth for data usage as there is low focus of existing players. This could offer potential opportunities for subscriber acquisition.

Tier2 and Tier 3 cities: Tier 2 and Tier 3 cities are upcoming hubs of business and academic activities. A focused approach can create a formidable market for an entrant.

M2M and cloud play: Specialized needs for Machine-to-Machine (M2M) and Internet of Things (IoT) may be targeted over the next two to three years to offer potential for rapid device additions and growth of connected devices.

Digital India and Smart Cities: With the government's emphasis on creating smart cities, providing better rural access and connectivity, mobile is slowly enabling the enterprise segment. Key aspects such as mobile payments and IoT will take precedence in the near future, thereby creating opportunities for players to offer services for the niche.

Challenges



Low rates: India has one of the lowest call rates in the world and sizeable scale would be required in case only re-selling minutes.

Quality of Service (QoS): Offering enhanced network connectivity with consistent QoS has been a concern to most MNOs in the recent past and ensuring Service Level Agreements (SLAs) would continue to be a challenge.

Lack of open platforms: This makes it extremely cumbersome to integrate MVNO's equipment with MNO's infrastructure as well as various third party integrations.

Limited spectrum holding: Lower and fragmented spectrum holding by MNOs could make entry of MVNOs in certain regions unviable and may impact service quality.

Recommendations for MVNOs in the Indian market

The Indian telecom today presents opportunities to MVNOs willing to take risks and address specific gaps in the market.

Strong brand image: Strong brand presence among the target audience that resonates with the services offerings would help the MVNO gain traction quickly.

Partnerships: The choice of partner is critical to establishing presence in the country. Developing long and lasting relationship with the MNOs would be key. MVNOs entering the market would have to think beyond geography while selecting the partner.

Focused acquisition: Developing strategies that are spot-on to target the desired customer niche, based on detailed customer behavior analysis and usage patterns would be key to acquire customers.

Focus on customer experience: Focus on providing superior customer experience to niche and micro segment customers can clearly compliment the MNOs.

Clear operational strategy: Deployment of international learnings to be executed by a strong local management team along with right control over OPEX could be a key differentiator.



Conclusion

In their initial days, MVNO players were segregated as 3G MVNO and 2G MVNO players. In some cases, fixed line incumbents used MVNO route to cater to mobile needs of their subscribers. The market has matured and come a long way since. Traditional voice and data services are not the sole business drivers for new age MVNOs.

New age MVNOs focus on niche/micro segments like migrant population, international roamers, short duration tourists, and business travelers. OTT players, broadband service providers, DTH providers and other non-telecom players with deep retail network are emerging as candidates for MVNO. Players with strong content base may see MVNO play as an

opportunity to offer subscribers value by alternate business model rather than conventional MNO portal with revenue share on premium content.

The MVNO players are neither required to meet any network roll out obligation and there is no limit on number of MVNO licenses to be issued for a service area. The end customer is oblivious to internal network details, and connects to brand attribute and service experience for the subscribed offerings. As such, early (MVNO) movers will have the advantage of forging the right alliances and establishing their brand ahead of the followers with right blend of customer offerings and experience.



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