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TRAI's recommendation on spectrum auction will raise cost per minute by more than six times; funding payout to be onerous: Ernst & Young and COAI analysis

~ Significant impact on operator costs and consumer tariffs ~

New Delhi, 3 June, 2012: Ernst & Young and the Cellular Operators Association of India (COAI) today shared their assessment of TRAI's recommendations on the auction of spectrum. The EY-COAI assessment highlights that TRAI has underestimated the impact on cost per minute by including both incoming and outgoing minutes in its calculations instead of only outgoing minutes that are chargeable. Further, TRAI's assessment does not include the cost of license extension in addition to the cost of spectrum to be auctioned. Taking into account these two factors only, EY-COAI estimates that the impact on cost per minute will be more than six times the 4.4 paisa (FY'13) estimated by TRAI. If all other factors are taken into account then there would be a significant increase on subscriber tariffs varying across operators and circles.

Commenting on the TRAI recommendations, **Prashant Singhal, Partner in member firm of Ernst & Young** said, "Our analysis suggests that there will be a significant impact on operator costs and consumer tariffs. The substantial payout for spectrum may compel the operators to raise further debt and strain their already leveraged balance sheets. Moreover, the operators would need deferred payment mechanism for spectrum charges to reduce debt financing requirement and to direct the funds towards network rollout in the initial phase".

The assessment suggests that TRAI has linked the reserve price to the 3G bid price and in doing so has implicitly assumed that the revenue or cash flow profile resulting from using the auctioned spectrum will be similar to that from using broadband networks. This is unlikely to happen in the short to medium term. Moreover, TRAI has not included the cost of additional spectrum and/ or network deployment to service the high voice and data growth assumed in the calculations.

Further, TRAI has assumed that MOU/ sub will grow 84% during the 20 year period that is in contrast to the declining trend seen over the last 3-4 years. Also, the assumption of non voice revenues contributing 50% by FY'21 to the total revenues is aggressive, says the EY-COAI analysis.

Mr. Rajan S Mathews, Director General, COAI commented, “The Ernst and Young report has further deepened our concerns on the impact which the high reserve price would have on consumer affordability. In wake of the release of NTP 2012 and affordability being a key objective of the same, the Centre should give utmost priority to relook at the spectrum auction process so as to ensure that consumer affordability is not hampered and that the industry is not pushed into an untimely retreat. It is critical to understand that while the NTP 2012 aims at objectives like 100% teledensity by 2020; these inconsistent regulatory policies will prevent the sector from performing optimally to achieve the targets. We would urge the Government yet again to consider the implications with a balanced view and refer to the industry representations, so as to come out with a process that would be fair to the consumers, the industry, as well as the investor community.”

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About COAI:

The Cellular Operators Association of India (COAI) was constituted in 1995 as a registered, non-profit, non-governmental society dedicated to the advancement of communication, particularly modern communication through Cellular Mobile Telephone Services. With a vision to establish and sustain a world-class cellular infrastructure and facilitate affordable mobile communication services in India, COAI's main objectives are to protect the common & collective interests of its members. Prominent private service providers and the infrastructure vendors are members of COAI, and work closely on various Industry issues. More about COAI at: (<http://www.coai.in/>)