

Vodafone India has improved its operational and financial performance over the past year despite several challenges. The operator, which was not directly impacted by the Supreme Court's 2G licence cancellations in February 2012, spent a good part of the year strengthening its data service portfolio and increasing its rural penetration. {K2Splitter}

Vodafone India has improved its operational and financial performance over the past year despite several challenges. The operator, which was not directly impacted by the Supreme Court's 2G licence cancellations in February 2012, spent a good part of the year strengthening its data service portfolio and increasing its rural penetration.

The growing adoption of data services has been a key growth driver for the company. As of December 2012, its active data user base stood at 33.1 million, including 2.5 million 3G subscribers. In fact, Vodafone India is optimistic about the uptake of 3G services. According to company officials, the operator's performance in the Indian 3G market during the first few months was better than Vodafone Plc's

initial experience in other countries. However, some key issues related to affordability and quality of service have impacted growth in this segment. To offer quality 3G services, Vodafone replaced its transmission network and upgraded its backhaul infrastructure to an all-IP network, apart from setting up new base stations.

In November 2012, the company acquired additional 2G spectrum. The increased quantum of spectrum in the 1800 MHz band is expected to significantly improve its services. The operator has continued to garner considerable market share both in terms of subscribers and revenues, second only to Bharti Airtel.

Moreover, Vodafone India, which has so far been a pure-play GSM operator, has expanded its portfolio by entering the wireline space. It has recently started offering internet leased line services to enterprises in a bandwidth range of 64 kbps to 1 Gbps.

The company has, meanwhile, faced some challenges in the past year, especially in terms of issues with tax authorities and the government regarding spectrum allocation. It has also

deferred plans to launch its initial public offering.

On a strong wicket

With a customer base of 149.87 million (as of February 2013), Vodafone India has a market share of over 17 per cent. The share of visitor location register customers in the total subscriber base stood at 95.18 per cent in January 2013, the second highest in the industry and much higher than the national average of 82.08 per cent. According to Dr Mahesh Uppal, director, ComFirst, "While Vodafone India is not the top player in terms of market share, it certainly has high-ARPU customers."

In India, Vodafone's business strategy includes adding high-value customers, offering a strong enterprise portfolio and innovating on branding and marketing initiatives. As per Harish Bijoor, brand expert and chief executive officer, Harish Bijoor Consults, Inc., "The company's strength lies in its detailed segmentation of the Indian market. Vodafone India has relied on its ability to make market inroads at the ground level with precision."

Customer acquisition and retention have been a top priority for the company, and over the past year, it has launched several new products and services. For post-paid users, it has introduced the "Earn and Burn" programme, which is offered to premium cardholders of Standard Chartered Bank and HSBC. The scheme helped the operator add over 130,000 users in 2012. The company has also launched the "My Delights" scheme, which offers attractive deals and discounts for restaurants, health and travel. Vodafone Business Services (VBS), the enterprise arm of Vodafone India, serves over 3 million corporate customers in India and provides services to more than 6,000 global and national corporate accounts. Recently, it firmed up plans to become a total communications provider for the pharmaceutical industry (which contributes 4-5 per cent to VBS's total revenues). The company plans to grow this business significantly in the coming years.

Further, the recent acquisition of additional spectrum in 14 circles – Assam, Bihar, Haryana, Himachal Pradesh, Jammu & Kashmir, Kerala, Madhya Pradesh, Maharashtra, the Northeast, Odisha, Punjab, Uttar Pradesh (East and West) and West Bengal – will help the operator consolidate its market position. Analysts believe that Vodafone India's Rs 11.28 billion investment in 2G spectrum acquisition will help it improve customer services in these areas. Of the 14 circles, the company leads in Haryana and West Bengal in terms of revenue market share.

Moreover, the company has continued to perform strongly on the financial front despite a pending tax liability and the huge outgo expected on 2G spectrum. Vodafone India's revenues for the quarter ended December 2012 stood at £1.1 billion – £785 million from voice and £94 million from data. The overall revenues grew by about 10 per cent over the corresponding quarter in 2011. While data revenues grew by 23.8 per cent during this period, driven by an increase in the sale of data bundles and in 2G data pricing, voice continues to be the mainstay of revenue growth for the operator. "Voice will continue to be the major revenue generator, but eventually the focus of all operators including Vodafone India will be on data and broadband," notes Uppal. Interestingly, during the quarter ended December 2012, Vodafone Plc's revenues decreased by 2 per cent to £11.38 billion as compared to the corresponding quarter in 2011 on account of challenging market conditions in Europe.

Fresh focus

While urban markets have always been important for the company, of late, Vodafone India has been making rapid inroads into rural areas as well. In general, saturating urban markets, the availability of low-cost devices and affordable plans, an improvement in rural infrastructure and initiatives like Mobile Money are driving rural customer additions for operators. Vodafone India is also riding the rural wave. It added the highest number of rural subscribers (3.02 million) in February 2013. The share of rural subscribers in the user base increased from 37 per cent in 2010 to about 50 per cent in 2012. The operator has attributed this growth to its new rural distribution model, under which people, mostly representing local panchayats, are appointed to sell the company's various products.

Another key initiative in the rural space has been the launch of the M-Pesa service, in association with ICICI Bank, which allows Vodafone India's customers to make cash deposits and withdrawals from the company's designated outlets as well as cash transfers to any mobile handset or bank account in the country. To enable the service, Vodafone issues a mobile wallet to its customers, which allows them to open a Mobile Money account with ICICI Bank. The service also allows customers to shop at select merchant outlets and avail of various facilities such as mobile recharge, DTH recharge, utility bill payments, etc. Globally, Vodafone's M-Pesa service has been a major success with over 15 million customers across developing countries including Kenya, Tanzania, South Africa, Afghanistan, Qatar and Fiji. These customers are transferring up to £500 million per month through the service.

It has formed a similar tie-up with HDFC Bank, under which the operator acts as a business

correspondent for the bank. The pilot phase has been initiated in Rajasthan.

Clearly, the company is betting big on financial inclusion in a bid to tap the country's large unbanked population (over half of the total population). The over 800 million wireless connections in the country can serve as the perfect platform for banks to reach out to the masses. In this regard, another key positive is the telecom industry's distribution network comprising over 2 million retail outlets covering 400,000 locations.

Another key focus area for Vodafone India is the wireline segment. The company is optimistic about its new venture and expects wireline services to contribute 20 per cent of its total enterprise revenues over the next five years. Its key offerings in this segment are internet leased lines; VPNs for providing cloud-based, secure and fast data connectivity between offices; leased circuits to enable data transfer between locations; and office wireline voice, which will convert employee extensions to direct lines. These will be offered to enterprises along with VBS's mobility and machine-to-machine solutions.

Commenting on Vodafone's wireline foray, Uppal says, "This will benefit the company's enterprise customers, who demand fatter pipes for service delivery." However, he says that the operator's limited expertise in the fixed line space, both in terms of service provision and physical infrastructure, may pose challenges while competing with other established players. Currently, Vodafone India's wireline infrastructure comprises 120,000 km of fibre networks (one-fifth of it is operated by state-owned Bharat Sanchar Nigam Limited), and over 350 points of presence across 130 cities. Wireline services account for less than 5 per cent of the company's net sales in India.

Challenges remain

While Vodafone India has marked some important milestones over the years, the journey has not been smooth all the way. For the better part of its Indian stint, the operator has found itself embroiled in regulatory issues and has been at loggerheads with the government, besides facing market competition and other operational challenges.

Vodafone India has a tax liability of about Rs 112 billion for its acquisition of Hutchison Whampoa's Indian telecom assets in 2007. As per the Indian Income Tax Department, since the

assets were located in India, the company must be treated as an “assessee in default” for its failure to deduct tax at source. However, Vodafone challenged the decision on the ground that the deal was signed outside the country (Mauritius). It received a temporary respite in January 2012, when the Supreme Court exempted Vodafone India from paying the tax. However, while presenting the Union Budget 2012-13, then finance minister Pranab Mukherjee proposed to make such transactions taxable retrospectively, resulting in a huge financial implication for the company. Thereafter, Vodafone India sent an arbitration notice to the government under the India-Netherlands bilateral investment protection agreement. Following this, the Parthasarthy Shome Committee was constituted to look into the issue. According to the committee’s final recommendations, the Vodafone deal should not attract retrospective tax. The issue is now pending with the union cabinet.

In addition, spectrum pricing has always been a bone of contention between Vodafone India and the Department of Telecommunications (DoT). Recently, DoT rejected the operator’s request to renew its 2G licences in the Delhi, Kolkata and Mumbai circles, which will expire in November 2014. DoT has stated that operators must reacquire spectrum in the 900 MHz and 1800 MHz bands through an auction process to continue services in these areas. However, the company has expressed its disagreement with this through an official release stating: “Vodafone India is deeply disappointed with the summary rejection of its request for extension of licences in the three service areas.” The operator did not participate in the March 2013 auction for 2G spectrum as it was expecting a licence extension. Vodafone has the highest revenue market share in the Kolkata and Mumbai circles, and suspending services in these service areas on licence expiry will have a major impact on its operations. “Rejection of the application shows that DoT has acted against public interest, as it will lead to disenfranchising 50-60 per cent of the market, leading to disruption of services,” the operator stated in a letter to DoT. Further, a company release noted: “There appears to be no acknowledgment by DoT of the full and faithful operation of the licence for 18 years – for being a pioneer and entering the market when there was no concept of mobile telephony in India, for investing billions in setting up a state-of-the-art network, for serving millions of subscribers and for contributing to the national teledensity objectives. Also, for being the second largest rural mobile service provider in India.”

However, industry analysts believe that DoT’s move should not come as a major shock to the incumbents. These players benefited from an early-mover advantage when there was no serious competition in the market, and, therefore, it is fair to create a level playing field for all operators going forward.

The way forward

Clearly, Vodafone India's regulatory strategy has not been very successful with the company moving from one regulatory challenge to another. In the short term, addressing these issues should be the company's top priority. "It needs to revamp its regulatory strategy. A positive is that, being an established player, Vodafone knows the business and should focus on moving to a stronger position in the mobile broadband segment," notes Uppal. Access to spectrum at affordable prices is at the top of the company's regulatory wish list. Vodafone India believes that reducing the spectrum price would allow operators to increase investments in network development and strengthening.

On the operational front, the company is sailing smoothly, and its continued focus on data services and enhancements in the enterprise segment will strengthen its position. Tapping the rural potential is also a key aspect of the company's growth strategy. According to Bijoor, "One of Vodafone India's weaknesses as a brand is the general perception of the company being upmarket and urban focused. Its campaigns do not connect with people who live outside its operational areas. It needs to get off the pedestal and think about the customer waiting down the line in terms of the affordability ladder."

Meanwhile, the operator has revived its most iconic advertisement campaign featuring the ZooZos for the Indian Premier League 2013.

Net, net, with a subscriber base touching 150 million, Vodafone India is in a strong position in India's highly competitive and price-sensitive telecom market. "The company has the potential to occupy the top spot in this market. If it is able to tackle the regulatory challenges it faces, it could provide tough competition to Bharti Airtel," says Bijoor.

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