After causing disruption in the wireless services domain, Reliance Jio is now all set to stir up the fixed line broadband market through the launch of its JioFiber services. JioFiber will be rolled out across 1,600 cities in India, offering speeds starting from 100 Mbps, all the way up to 1 Gbps. Breathtaking in its scale and dimension, this launch could provide a big boost to the country's fixed line broadband penetration and fibre-to-the-home (FTTH) market. Interestingly, the ultra high speed broadband service comes bundled with various other related services such as voice calling, conferencing, entertainment OTT applications and premium content, which will have an impact on various players across the telecom and digital value chain. Industry experts discuss the impact of the JioFiber launch on market dynamics…(From Left to right: *Murtuza Onali Kachwala, MD, Protiviti India,*
Rajiv Sharma,
Co-head, Institutional Equity Research, SBICap Securities,
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)

Murtuza Onali Kachwala

Speaking at the annual general meeting of Reliance Industries Limited (RIL), chairman Mukesh Ambani said that customers should pay for one service, either voice or data, and not both. The investment cycle for Jio is now complete. The firm has invested Rs 3.5 trillion towards digital infrastructure and fibre network. The company will now initiate the process of revenue generation through internet of things (IoT), home broadband, enterprise broadband, and broadband for small and medium businesses. This may lead to consolidation in the television distributor market, as witnessed in the telecom market post the launch of Jio three years back.

JioFiber is targeting 20 million homes and 16 million enterprises over the next 12 months. The total user base of wireline broadband services in the country stands at just 18.45 million. Bharat Sanchar Nigam Limited (BSNL) has the largest share of 9.09 million subscribers, followed by Bharti Airtel, which has 2.39 million subscribers. The other players are very small.

The launch of Jio's wireline FTTH services will be a major disruption for BSNL, which is currently the market leader in this segment.

Impact on competitive landscape

JioFiber's commercial roll-out will trigger a second wave of activity in the fixed line broadband market, dominated by a cross-spectrum of players. These include telecom operators (telcos) such as BSNL, Mahanagar Telephone Nigam Limited (MTNL) and Airtel; cable companies such as Hathway and DEN Networks; and pure-play broadband operators such as ACT and Spectra. The direct-to-home (DTH) and cable markets will also be affected.

Competition in the telecom industry has remained intense with Jio's data tariffs 25-30 per cent lower than those of Airtel and Vodafone Idea. We may see Jio becoming a sizeable player in the home broadband segment with an estimated 8 million subscribers by the financial year 2023.

The level of impact on multiple system operators (MSOs) and DTH players will depend on their geographical diversity with regard to subscribers, the relative attractiveness of the market, and tariffs and service offerings. The real challenge will be last-mile connectivity. We can expect Jio's roll-out to be gradual. The pricing will not be as disruptive as it was in the case of mobile.

Benefits to Jio

The current broadband penetration levels are low in India compared to other countries in the world, with only 7 per cent of the 290 million households having fixed broadband and 180 million TV households. If Jio targets 50 million households, which is only 18 per cent of the total households at the current monthly broadband tariff of Rs 500-Rs 600 per household, the potential market size could be Rs 300 billion-Rs 360 billion, a significant portion of which could be tapped by Jio.

Jio will also explore the IoT space, backed by its parallel foray into data centres through a partnership with Microsoft. This will help Jio enter the enterprise business currently populated by the likes of Google, Amazon Web Services, Netmagic and CtrlS, among others.

Impact on data uptake

Jio's announcement of broadband offering will impact MSOs and DTH players, and will benefit content providers. It has the potential to open up new digital avenues for the enterprise broadband segment. The roll-out of the service comes as good news for over-the-top (OTT) platforms as well. The paradigm shift from a content delivery perspective to an investment perspective in infrastructure will benefit not only viewers but also businesses.

Jio GigaFiber will also change the digital ecosystem with its offering of a host of features across the various price ranges, making it affordable for all consumers. Being low on pricing, it will strengthen the presence of the digital media in rural markets by providing a good network and great content. The quality and depth of engagement will allow users to have a better experience and engagement with online video. The service will strengthen the digital reach in rural markets due to an increase in the internet and smartphone penetration.

Rajiv Sharma

Jio's foray into home broadband

I believe it is going to expand the overall market. The focus is going to be on urban and, to begin with, on high density multi-dwelling units. Currently, there are a lot of supply-side gaps. Cable operators are catering to this segment, but they provide DOCSIS 3.0, which has capacity limitations. It works on a 20 per cent pass-through model, which means only 2 out of 10 homes will get quality services and speeds will start getting distorted from the third/fourth home onwards. FTTH services are much better in terms of throughput and the user experience. So, these clusters, which are currently being catered to by cable operators, can be a good starting point for Jio. Now, most of these clusters in Mumbai, Delhi and some other cities are either being catered to by Hathway or DEN, and Jio has already made a substantial equity investment in these brands.

Impact on competitive landscape

The competitive pressure faced by telcos, internet service providers (ISPs) and cable operators will be mostly around enhancing speed and reliability. While cable operators currently offer very high speeds, instances of network outages are also high. Jio's services are expected to have significantly low downtime.

Currently, the high speed wired broadband market, which falls under the FTTH category, stands at just about 4 million-4.5 million. So, I do not think it is going to be so much about the user churn from Bharti and BSNL to Jio. Also, much will depend on the OTT offerings that Jio plans to bundle with its services. As of now, there is not much clarity on that front. We do not know of any partnerships with Netflix or Amazon, which could be a deciding factor for an Airtel user whether or not to move to Jio.

Moreover, so far Jio has positioned itself as a content platform with offerings like Jio Cinemas and the MyJio app, and partnerships with Netflix and Amazon will dilute this positioning. So, we would have to wait and watch for Jio's strategy on this front.

Opportunities and challenges for Jio

JioFiber opens up a new revenue stream for telcos. The home broadband market has got less competition at present but it is likely to intensify in the future. The way users need high speed mobile broadband, they need high speed home broadband too. So, the overall market potential is huge. Foraying into this space can help a telco in brand building and positioning it in the market as an integrated operator, as investors prefer integrated operations to stand-alone operations. Further, significant leverage exists between mobility and FTTH, as the fibre that is being used for backhaul in mobility can now be utilised for FTTH with some incremental investments. This helps telcos derive benefits on the enterprise front as well.

However, unlike mobility, this market requires slow and gradual deployments. One cannot deploy a tower and immediately get access to 2,000-5,000 subscribers. For Jio too, I believe, there will be challenges around network deployment, particularly flat beds, like in the case of Delhi or most parts of the country, which do not have high-rise buildings as large part of their mix. Keeping the capex low will be a challenge and that is why the company is offering several long-term plans with 12-18 months' time frame, which can provide Jio with upfront cash to address its capex needs.

Impact on data uptake

Since data uptake on home broadband is far higher than mobility, the overall data consumption in India is expected to go up significantly. On a 100 Mbps connection, the average consumption will stand at at least 400-500 GB per home. Do note high speed offerings facilitate and encourage more data usage and the content industry particularly the OTT space stands to benefit most from the high speed home broadband growth.

Hetal Gandhi

Impact of JioFiber on fixed broadband market

At the current pricing of JioFiber, we expect a minimal uptake in the fixed broadband space. Although the base plan of JioFiber is cheaper than that of its peers by 15-20 per cent, its price per GB is still higher at Rs 4 as compared to players like BSNL, which is providing 500 GB base plans at Rs 777-Rs 850. Further, in the premium plans, JioFiber is comparable to other players.

We expect the competition to intensify in the medium term at the entry/base pack level in the wired broadband space where players would match pricing, impacting their high profitability in the broadband segment. Players like Airtel have already been reducing their pack prices over the past five to six quarters in view of the tough competition going ahead.

Impact on competition

• Existing triple-play providers, such as Bharti Airtel, which has a 13 per cent share in the broadband market, will be able to bundle their mobile, broadband and TV services. The share may improve given the tactical announcements to match the competition. For instance, Airtel can readily target the captive DTH subscriber base of 16 million. Broadband ARPU may drop to Rs 100 as the players would try to upgrade their existing plans. Profitability will go down marginally due to a drop in ARPUs. However, it is unlikely to have any significant impact, given the already high margins in the broadband segment.

• Government-owned telcos like BSNL and MTNL also provide broadband services, which command more than 50 per cent share in the wired broadband market. As the current speeds and data plan are largely in line with those of the new entrant, they are expected to retain their share. ARPUs will not be impacted much as the current plans are already one of the lowest. However, the financial distress of the entities may impact the quality of their service that may induce risk of subscriber churn. Local ISPs including players like ACT Fiber and Tikona are not likely to witness much subscriber churn as they are expected to match up their current plans to that of the new entrant. ARPUs may go down marginally and profitability will be hit in the short term, with a minimal subscriber addition.

• MSO/DTH providers, including Hathway, Siticable and Tata Sky, operate as both TV distributors and broadband providers, and would try to match up with the new entrant's offerings. However, major players in this segment like Hathway and DEN have already been acquired by Jio. ARPUs are likely to go down marginally as the players revise their pricing to match with those of the new entrant.

• Stand-alone DTH operators including Dish TV and SunDirect that operate only in the TV business are likely to stay for now, in the absence of bundling of TV services. MSOs and LCOs will see some hand-holding from the new entrant due to set-top box compatibility in the near- to

medium-term. ARPUs are expected to stay stable given the variable content cost post the new tariff order. Impact on profitability is likely to be minimal as there is no indication of bundling TV subscription in the new entrant's offerings.

Benefits of JioFiber

JioFiber would enable bundling of broadband services with TV and mobile plans providing triple-play services. This would empower the new entrant to provide further discounts on integrated services. We expect the new entrant to capitalise on the integrated services once the infrastructure and tie-ups are in place for cable services over the next one year. The only other player capable of providing triple-play services is Bharti Airtel, which has already started testing its integrated billing services in Chandigarh.

Impact on data uptake

At 9 GB per subscriber per month, India has the world's highest data usage per smartphone. This is expected to double by 2024, propelled by the emergence of OTT platforms. In this scenario, we expect wireless MSOs to aggressively promote data offloading to the wired broadband segment by pricing their offerings competitively and enabling integrated usage. This is to offload data consumption from the wireless to the wired, which works on unlicensed spectrum bands of 2.4 GHz, 5.7 GHz and 5.8 GHz, thereby easing congestion in the mobile traffic.

Ever since the launch of Jio mobile services in 2016, the data traffic on mobile broadband has seen an exponential growth. The number of subscribers using mobile broadband has grown 11 times during fiscal years 2014-19. With the emergence of OTT platforms like Netflix, Amazon Prime and Hotstar, video-based data consumption has gained traction, with as much as 68 per cent of the mobile data consumption being video based, which has higher bit rates than other content types. Developed countries like the US and the UK have offloaded about 30 per cent of their mobile data traffic to public Wi-Fis. The absence of widespread public Wi-Fi in India makes wired broadband proliferation even more essential for offloading data to reduce congestion and network issues in wireless mobile services.

Ankit Jain

Although Jio has launched its FTTH services under JioFiber, it is not expected to be as disruptive as in the past when it launched wireless services. The plans offered by Jio are at some discount to the tariffs offered by the existing players and are bundled with a bouquet of services. At the same time, it is not unsettling for the incumbent telecom operators as they have also revised their prices and have upped content provisioning.

Wireline broadband penetration in India is much lower as compared to the international standards and presents a significant opportunity for telcos. Wireline broadband coverage would largely expand in the country through FTTH networks, which are capable of delivering high speeds, coupled with stability in the network. With only 18 million subscribers in the country, the fixed line broadband segment has suffered on account of its inherent disadvantage of immobility, poor infrastructure as well as fluctuation in network speeds due to connectivity through copper cables. As a result, India's fixed line broadband penetration (number of fixed line broadband subscriptions as a percentage of households) has remained low at around 7 per cent, which is significantly lower compared to other major economies such as France (99 per cent), Canada (97 per cent), the UK (94 per cent) and the US (87 per cent).

Apart from fixed line, the services bundled include television and content through OTT providers. In the television segment, the total penetration is around 66 per cent of the total households, of which 65 per cent depend on copper cable, which limits the capability to provide high bandwidth services. While the entry of the new player is expected to increase competition and reduce ARPU levels, the bundling of services and focus on the extent are expected to propel the market towards growth and increase revenues for the telecom industry. The expansion of the FTTH network will allow it to be the bedrock for content delivery to homes, as it encompasses an umbrella of services including wireline voice, wireline broadband and television. Increasingly, the television industry is moving towards content-on-demand and high quality videos or content.

Inderpreet Kaur

Fixed broadband penetration in India really needs a boost. In contrast to the large and fast growing mobile market in the country, fixed broadband penetration has languished. Reliance's service launch may well be the catalyst that ignites this market and unleashes growth in selected cities.

The long-held monopolies by only a few service providers has resulted India's household penetration to remain one of the lowest in Asia and even in the world. It is growing, albeit slowly. Added competition with Reliance's entry will be instrumental in improving service pricing, usage and speed trends.

Consumer broadband speed of at least 100 Mbps is becoming a global phenomenon. Ovum believes that the fixed broadband speed will improve dramatically with the growth in higher tiers (100 Mbps and above) gathering momentum and accelerating every year. According to Ovum forecasts, the subscriptions accessing speed tiers between 100 Mbps and 1 Gbps will comprise 42 per cent of the global broadband subscriptions by 2023. India cannot afford to remain an outlier. The JioFiber service, offering download speeds between 100 Mbps and 1 Gbps, is expected to add to this rising tide of bandwidth-rich consumers.

Potential impact on competitive landscape

Clearly, the focus is on ultra-high speed broadband services that can support multiple high bandwidth applications today and for the next few years. Service providers need to leverage the rise in speeds to offer more value to customers such as a superior customer and content-viewing experience.

Protecting high-end subscribers and growing into stronger players require deep-rooted content strategies. The incumbents need to be more innovative with their bundling and pricing strategy – like launching long-term plans to lock up customers to minimise customer churn. If incumbents are to be part of the growth story, they have to expand their networks quickly, and not just stick to upgrading what they already have.

The shift in the content landscape, which is now supported by the availability of high speed broadband services, will eventually develop a market dominated by SVOD (subscription video-on-demand) and OTT services, giving rise to new challenges for pay-TV providers. An important and urgent question is: how should their traditional set-top box evolve?

Reliance's deal with Hathway, DEN and Glare Technocons Private Limited (commonly known as GTPL) gives it access to a combined 24 million pay-TV households. While the immediate priorities are to leverage the cable operators' existing infrastructure to accelerate the roll-out of

JioFiber, this also gives Reliance the opportunity to pursue a hybrid TV offering, leveraging advanced capabilities of the cable providers' existing digital TV infrastructure.

Benefits to Jio

Reliance now has a successful mobile business, and the group also backs several relevant businesses in the media, entertainment and digital services segments. Reliance's majority stake in Network18 Media & Investments and the nationwide cable licence that it acquired through Jio Media underline its interest in bolstering the group's media play. Looking at the Reliance Group's diversified interests, its expansion into home broadband and media segment has been on the expected lines. These strategic investments in media and fixed assets, along with Jio's existing nationwide LTE network, enables the operator to introduce converged offerings consisting of content, fixed broadband, mobile broadband and fixed line voice. This means users can consolidate their household spend on communications and entertainment services.

Globally, operators have used converged or quad-play bundles to improve churn and stabilise the ARPU growth. While Indian operators have so far failed to seize this opportunity due to low investments in fixed infrastructure, Reliance is set to offer various service bundles to boost the perceived value for customers.

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