

TRAI announces Tariff re-balancing, New Interconnect regime

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The Telecom Regulatory Authority of India (TRAI) announced a tariff re-balancing package for fixed line companies and interconnection regime for the telecom industry on Saturday. Details are as given below:

- Pulse duration of a local call has been cut from the existing 180 seconds or three minutes to 120 seconds or two minutes.
- The number of free calls per month has been reduced to 30 for urban users and 50 for rural users.
- For distances up to 50 kilometers, both intra and inter-circle calls, the call charge will be the same as for local calls. For all other distance categories, tariff forbearance, subject to ceiling of Rs8.40 per minute as the upper limit for long distance calls.
- Restriction on call charges for WLL (M) lifted. TRAI proposes forbearance instead of the existing Rs1.20 per metered call unit.
- TRAI has stipulated that no charge would be levied on the subscriber for incoming charges except the access charge.
- *Exhibit 1* elucidates the proposed interconnection charges

Exhibit 1: Proposed Interconnection charges

	Metros	Inter-network calls within Circles
Fixed to Mobile	Per/Min	Per/Min
Retail	0.50	0.60*
Access charge	0.30	0.40
Total	0.80	1.20
Mobile to Mobile	Per/Min	Per/Min
Retail	F	F
Access charge	0.30	0.40
Mobile to Fixed	Per/Min	Per/Min
Retail	F	F
Access charge	0.50	0.60

Note: 'F' stands for forbearance on the part of TRAI, that is, operators are free to decide their charges; * excludes transit cost of Rs.20/min additionally payable for calls terminated on Fixed and WLL (M) networks. Source: TRAI

Impact

Tariff re-balancing could accelerate shift to wireless

The new tariff rebalancing package announced by the TRAI, incorporating higher rentals for urban residential users benefits MTNL, but the proposal also reduces the gap between fixed line rates and cellular, which in our opinion would accelerate the shift to wireless. MTNL's current fixed line rates for urban residential users are at Rs456 per month for around 1,000 minutes (3 minute calls). If the proposed rates by TRAI get implemented, fixed line charges for 1,000-minute usage (2-minute calls) would rise 36% to Rs620. However, it is important to note here that, MTNL has not yet implemented the tariff re-balancing scheme announced by TRAI last year, which would have implied monthly charges of Rs523 for 1,000 minutes (3 minute call) instead of Rs456.

MTNL's current quarter results also reflect the revenue losses from declining long-distance rates and the shift of long-distance calls to GSM cellular. Going ahead, we see MTNL gaining from the hike in urban



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residential usage charges, which will certainly help neutralise gradually further falls in long-distance rates and the continuing shift of traffic to GSM cellular. If implemented from 1 April 2003, we believe that traffic re-balancing would be a big positive for MTNL in FY04E. For FY03E, we maintain our EPS target of Rs15.4 and reiterate our **Market Performer** rating on the stock.

Interconnect to benefit GSM cell firms

We see Bharti Telecom (BTVL) gaining from the proposed tariff re-balancing and interconnect charges, which in the medium term should more than make up for the loss in airtime revenue on incoming calls. With an estimated 3.15million GSM subscribers by March 2003, BTVL would have a net surplus from interconnect charges. The shift to wireless and increased minutes of usage would make up for the average revenue per unit (ARPU) decline in the short term. We estimate BTVL to clock a compounded 42% growth in GSM subscribers between FY03-05 and an over 54% compounded growth rate in operating profits to Rs17.47bn by FY05E. We have a conservative long-term DCF target on the stock of Rs43 per share based on a minimum 20% market share of the total wireless subscribers in India. We reiterate our **Out Performer** rating on the stock.

Stock Ratings Absolute Returns

Buy	:	> 25%
Out Performer	:	16 - 25%
Market Performer	:	0 - 15%
Under Performer	:	< 0%

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