TELECOM

Sector Impact - Neutral

Background

Growth of Wire-line and Wireless services

		September 30, 2008	September 30, 2009	Growth (%)
Wireless subs. (mn)		315.31	471.73	49.61
Wireline subs. (mn)		38.35	37.31	-2.72
ARPU* (Wireless) (Rs./sub/month)	GSM	221	164	-25.8
	CDMA	122	89	-27.7
MoU* (Wireless) (MoU/sub/month)	GSM	499	423	-15.2
	CDMA	332	308	-7.2
Teledensity (%)	Urban	77.35	102.79	-
	Rural	11.13	18.46	-
Overall Teledensity		28.33	43.50	-

*ARPU=Average Revenue Per User; MoU= Minutes of Usage

- Telecommunications has emerged as one of the key sectors responsible for India's resurgent economic growth. The sector was relatively untouched by the economic slump that beleaguered India in the FY09 and the early part of FY10.
- The telecom policy objectives focus on network expansion, rural telephony, roll-out of 3-G services, enhanced broadband coverage, R&D, domestic manufacturing of telecom equipment and a supportive environment for the competitive growth of the sector.
- Rural and Semi-urban India are the next target for most telecom companies since urban India has been largely tapped. ARPUs are expected to decrease further as rural subscriber base increases but volumes are expected to slightly compensate for the fall in ARPUs.
- FY10 witnessed the launching of services by the new operators in collaboration with their foreign partners who have technical expertise as well as financial strength. The sector has seen a fall in margins for most of the existing players due to intense competition. The success of these operators would be determined by the spectrum allocation policy of the Government of India (GoI).

- The outstanding issues before the GoI include additional spectrum allocation for 2G, fresh spectrum allocation for 3G and WiMax, multiple levies on the sector, increase in rural connectivity and mobile number portability.

Budget Proposals

1. Full exemption from basic customs duty and CVD to components for manufacture of battery chargers.
2. Components of Hands-free headphones of mobile handsets including cellular phones are also fully exempt from customs duty and CVD.
3. The validity of the exemption from special additional duty on mobile phones is being extended till March 31, 2011.
4. The Minimum Alternate Tax (MAT) has been increased from 15% in 2009-10 to 18% in 2010-11.

Duty Structure

(%)	Existing	Proposed
CUSTOMS DUTY		
• Convergence Products	5	5
• Raw materials for use in the IT/electronic hardware	Nil	Nil
• Project Imports	5	5
• Components for battery chargers and hands-free headphones	4	Nil
EXCISE DUTY		
• Wireless Data Cards	Nil	Nil
National Calamity Contingent Duty		
• Cellular Mobile Phones	1	1
CENVAT	14	14
MAT	15	18

Budget Impact – Industry

1. The exemption from basic customs duty and CVD to components for manufacture of battery chargers and hands-free headphones of mobile handsets will make the mobile phones cheaper which in turn will have a positive impact on their demand.
2. The increase in MAT from 15% in 2009-10 to 18% in 2010-11 may adversely impact the telecom service providers as they may have to pay higher taxes.

Company	Products/services	% of Sales	Applicable Proposals	Overall Impact
Bharti	Telecommunication Services	100	1,2,3,4	◀▶
Vodafone	Telecommunication Services	100	1,2,3,4	◀▶
Reliance Communication	Telecommunication Services	100	1,2,3,4	◀▶
BSNL	Telecommunication Services	100	1,2,3,4	◀▶
Idea	Telecommunication Services	100	1,2,3,4	◀▶

Legends:

▲▲	Highly Positive	▼	Negative	◀▶	Neutral
▲	Positive	▼▼	Highly Negative	Ø	No Proposals