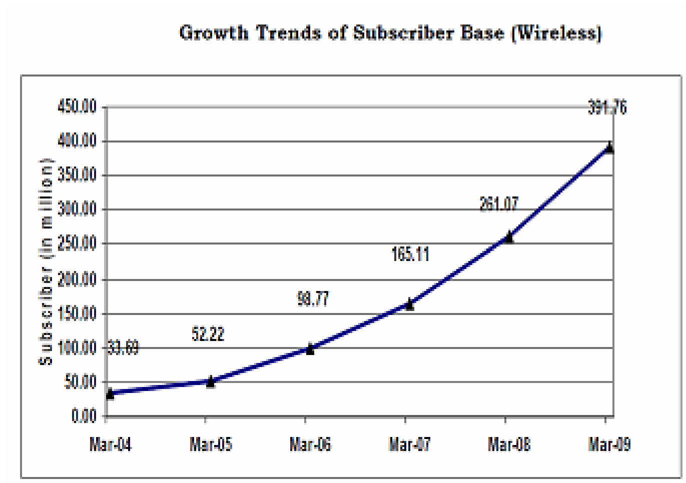
“Worriless with wireless” – An interesting trend in rural India

Rural-urban disparities in India have for long been a major concern for policy makers. Disparities can be seen in both economic and social spheres of human life. Inequalities in income, lack of employment opportunities, lack of infrastructure and civic amenities, inadequate access to education, healthcare and other basic services are some of the major areas where rural areas lag behind. Globalization and spread of the consumer society have further accentuated these disparities, visible in the affluence and glitz of urban areas, as against poverty, deprivation and squalor that characterize the rural landscape in many parts of India.

Wireless Growth

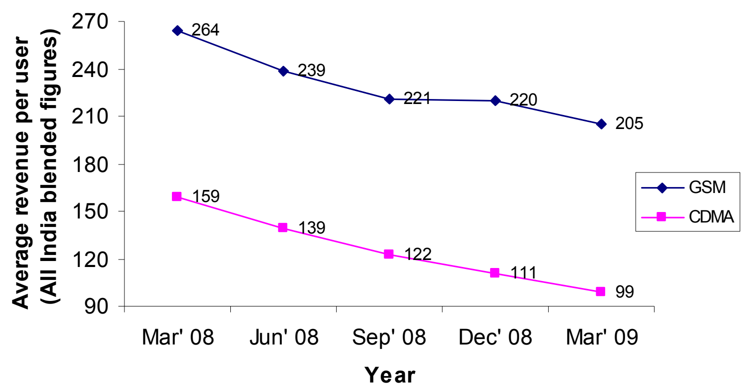
The Wireless subscribers have reached 391.76 million as on 31 March 2009 as against 346.89 million subscribers in the previous quarter. During this quarter 44.87 million wireless subscribers were added. Both GSM and CDMA technologies are showing robust growth trends in the wireless subscribers growths promising both these technologies are here to stay.



According to TRAI, the GSM subscriber base has reached 297.26 million in the quarter ending March 2009 as against 258.23 million at the end of the previous quarter. The CDMA subscriber base has reached 94.50 million in the quarter ending March 2009 as against 88.66 million at the end of the previous quarter.

Growth is good but ARPU is diminishing as well

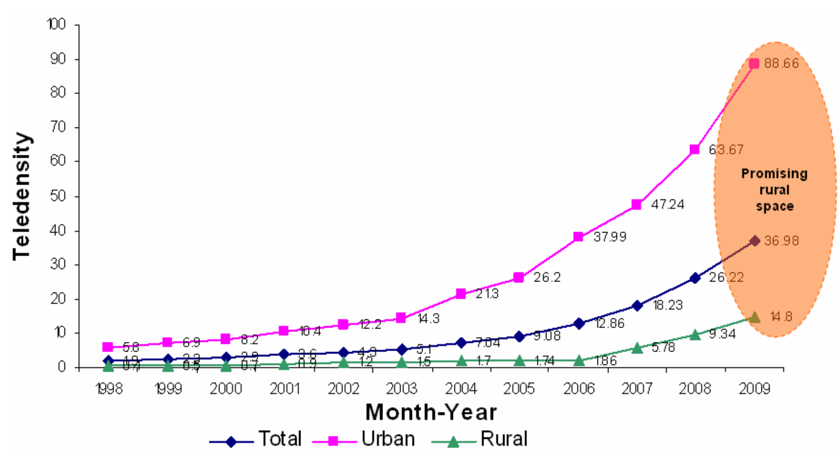
The all-India blended ARPU for both GSM and CDMA technologies however have been decreasing progressively. ARPU for GSM has shown a decline of 6.5% from Rs. 220/- in December 2008 to Rs. 205/- in March 2009. ARPU for CDMA for the quarter ending March 2009 is Rs.99/- as compared to Rs. 111/- for the quarter ending December 2008.



The decline could be attributed to customer-friendly policy initiatives by the regulatory body, cut throat competition, reduction in local and National Long Distance(NLD) call charges, a rising share of pre-paid subscribers and, most importantly, to the majority of new additions being from the low income group of society. **The declining ARPU also implies that India Inc. is tapping a large market at the bottom of the pyramid by reducing tariffs.**

Mobile growth in Rural

Even though the Indian mobile telephony in India has grown very rapidly, this is definitely not of the same 'absolute figures' in rural. Of the total mobile subscribers in March 2009 at 429.72 million, 28% is contributed by rural India (source: TRAI). Also, as of March 2009, the rural and urban tele-density was 14.80 and 88.00 per 100 people respectively (source: TRAI.)



From the graph above, it is clearly evident that urban markets are saturated with a tele-density of 88.66%, whereas rural markets, though less penetrated in comparison, are experiencing an aggressive incursion. The new growth is almost entirely coming from rural India. The government announced rural tele-density in India is 16.54% as of May 2009 (against March estimates of 14.8 as reported in the chart below). The government has put regulatory mechanisms in place to encourage rural telephony and the service providers are eyeing rural India as the next area of growth. The rural mobile tele-density is expected to reach about 36.25% by 2013 (estimates by "Research and Markets group" in the report 'Indian Mobile Market Dynamics and Forecast (2008-2013)'). This growth in rural India is not happening accidentally. A few years back, before the rural thrust began, the operators faced a huge dilemma. It was known that rural India's telephony will have low ARPU characteristics.

The rural average revenue per user (ARPU) per month is estimated to be approximately Rs. 165 (source: TRAI) and newer subscribers are added at progressively lower ARPUs. There may be a sharp decline by 18% to reach Rs 150 by FY 2010 and Rs 136 by FY 2011.(Source: TRAI).

Such Low ARPU would not normally make business sense. But as the urban market got saturated, the operators could get their growths only in rural areas. Making business sense out of this low ARPU is now no longer an option but rather a business compulsion. Indian Operators have come up with several measures, which have already propelled the rural mobile boom (even with this low ARPU) into a viable business. While all this is painting a very good picture, it is also essential to consider the challenges of rural in the long run. Job well done now but will it sustain in the long run?

Go Rural!

Any queries/comments, please write to info@aaumanalytics.com.