Association of Radio Operators for India (AROI)

Q1. Do you agree with the proposed approach/ methodology for determination of the valuations of FM Radio channels in 253 new cities in Phase-III? You are welcome to suggest an alternative approach/methodology with justifications.

We do not agree with the proposed approach as it will derive a very high reserve price, thereby making the small towns unviable.

a. **Please refer to Para 1.8 of the TRAI consultation paper wherein it clearly states that the objective is growth of the radio industry and any revenues are only incidental. Therefore the focus should be on a minimum reserve price and not maximizing it out of reach of small operators.**

b. **The consultation paper takes average price as base, whereas to calculate reserve price, the last reserve price in Phase 2 should be the basis.**

c. **We also do not agree that the base price should be extrapolated for 15 years. It may be noted that in addition to one time NOTEF, there is also an annual revenue fees to be paid to government. Therefore the increase in license period which leads to pro rata increase in total annual fees to Government factors in the increase in period. Again applying the pro rata multiplication factor is unfair and leads to artificial rise in total fees to be paid to Government.**

d. **The wholesale Price Index is itself subject to abnormal fluctuations. These should be eliminated. It is also suggested that the increase in valuation of Radio Industry should also be considered to judge inflation factor. Advertisement rates could be the factor to consider.**

e. **Any increase in number of frequencies beyond the current proposed number in a city should lead to pro rata lowering of reserve price.**

f. **The classification of cities could be on parameters suggested. However once classified the reserve rice of relevant phase 2 cities, should be then applied directly without confusing thee with any other formula – listenership or otherwise, as relevant data is not available.**

g. **A reasonable reserve fee, as proposed above, would lead to bidding by many smaller players also , thereby increasing the auction prices and will therefore also not result in any lowering of revenue to Government.**

A justification sheet is attached.

Q2. Do you agree with the proposal that the RP for FM Radio channels in a new city can be set equal to 0.8 times of the valuation of FM Radio channels in that city? If not, suggest an alternative proposal with justification.

The RP should be set as determined in our suggestions in answer to Question 1. Valuations derived out of unavailable or unreliable data would only lead to erroneous figures.

Q3. Do you agree with the proposed reserve price of Rs. 5 lakhs per city, for FM Radio channels in 11 border cities in Phase-III? If not, suggest an alternative proposal with justification.

Agreed

Q4. Stakeholders may also provide their comments/ suggestions on any other issue that may be relevant to the present consultation.

Justification to Point 1.

Estimation of Logical Reserve Price .

1. Phase-2 Auctions are the only relevant market data available for determination of Phase-3 reserve fee.

2. The table below shows the results of Phase-2 bidding. It is seen from the table that in as many as 77% of the cities put on auction, all frequencies could not be allotted. In only 21 cities (out of 91) all frequencies were fully allotted.

Left Over Balance Frequencies		
(numbers)	**Cities**	**Frequencies**
Offered in Phase-2	91	338
Successfully Bid in Phase 2	87	245
Cities Fully Successfully Bid For	*21*	*80*
Left Over Balance Frequencies Offered in Phase-3	70	93
- as percentage of total	**76.92%**	**27.51%**

3. The proposed Phase-3 auction methodology is also very different from the auction methodology used in Phase-2 auctions. It is necessary to compare the two auctions in order to arrive at the fair reserve fee for Phase-3. Please see comparative table below.

Sl. No	**Aspect**	**Phase-2**	**Phase-3**
1	Description	Closed Tender	Simultaneously Ascending e-Auction
2	Reserve Price	Determined post- bidding at 25% of Highest Bid	Arbitrarily fixed as Highest Bid of Phase-2
3	Successful bid amount	Any bid higher than 25% of the Highest Bid; winners chosen in descending order of bids till all available frequencies are allotted	The minimum price at which the number of bidders are not more than frequencies being allotted
4	Price Range of Successful bids	Any value between 25% of the Highest bid To the Highest Bid	One single value derived as mentioned in point 3 (bidding to start from

			reserve fee)
5	Year /Likely Year of Allotment	2006	2014
6	Period of Allotment	10 years	15 years
7	Number of Frequencies not bid for or bid less than Reserve Price - numbers - as percentage of frequencies offered for bidding	93 27.51%	Yet to be determined

4. It is to be noted that even at the reserve price of Phase-2, which was 25% of the highest bid received, many frequencies were left unallotted. This shows that the Reserve One Time Entry Fee (ROTEF) of Phase-2 auctions in year 2006 was also a very high figure for the market, with many frequencies not taken by any player in the auction.

5. IF Phase-2 methodology was as per Phase-3 auctions (simultaneous ascending e-auctions), Operators in a city would have paid:
   a. In 21 cities (where all frequencies were successfully bid for), ALL operators would have paid the lowest successful bid, where demand equaled supply. This fee would necessarily be higher than the ROTEF as specified in Phase-2 methodology (25% of highest bid).
   b. In 70 cities (with left-over frequencies), ALL operators would have paid the lowest successful bid, where demand equaled supply. This fee would necessarily be lower than the ROTEF as specified in Phase-2 methodology (25% of highest bid).
   c. This clearly shows that in a majority of cases (70 out of 91 towns), the successful bid would have been LOWER than the ROTEF.

6. Therefore, the logical reserve fee for Phase-3 auctions should be based AT MOST on the ROTEF of Phase-2 bidding.

7. Annual license fees in addition to One Time Auction Fees already factor the increased period of license (15 years versus 10 years in Phase-2), therefore a additional multiplication factor of 1.5 is not justified. .

8. To factor in inflation for 8 years (2006 to 2014), an inflation factor can be applied. The Wholesale Price Index (WPI) has been proposed but it is subject to fluctuation due to abnormal fluctuations and may not be relevant to Radio Industry. A relevant factor like advertisement rates could be considered.

9. Therefore the Reserve Price for Migration should be the ROTEF in Phase-2 multiplied by a reasonable index.

V. The approach used in the consultation paper would inflate the reserve price by about two times as compared to the reserve price base suggested above. The increase would mean that many small towns would be financially unviable for a radio station.