Subject:
Comments on Consultation paper on Reserve Price for auction of FM Radio Channel in New Cities from Reliance Broadcast Network Limited
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02/25/15 05:17 PM
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Kind Attn: Mr. Sunil Kumar Singhal

Subject : Comments on Consultation paper on Reserve Price for auction of FM Radio Channel in New Cities from **Reliance Broadcast Network Limited.**

Dear Sir,

With reference to the Consultation Paper on Reserve Price for auction of FM Radio channels in New Cities **(CP)** issued by Telecom Regulatory Authority of India (**TRAI**) on February 6, 2015, set out below are our comments:

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.

Ans. 1. We do not agree with the methodology of determination of reserve prices for new towns as laid down in the consultation paper.

a) *As mentioned in para 2.21 (iii) of the CP,* ***a factor of 1.5 for increase in permission period from 10 to 15 years is to be applied****.*

We suggest that the 1.5x factor should not be applied.

This is because online/digital streaming will start effecting FM radio in 5 years. Thereafter, FM radio revenue growth could turn flat or negative in the 10th year. To that extent, any period beyond 10 years might be of very little or no value in the matured cities. In most of the new cites where even AIR infrastructure is not available the radio broadcasters would need to make huge investments. Therefore, the increase in permission period from 10 to 15 years would only give operation freedom and would not add to any commercial value.

Hence, 1.5x factor should not be applied.

b) *As mentioned in para 2.21 (iv) of the CP,* ***a factor of inflation*** *i.e. Z = 1.798Y is to be considered while calculating the Reserve Price* ***(RP)****.*

We suggest that factor of inflation should not be taken into account while arriving at the Reserve Price.

The radio industry would need to make huge investments in capex, training, employment generation and to set up infrastructure. Further, the increase in the number of frequencies in bigger cities would also lead to reduction in radio market share.

This formula was not considered in the earlier method of calculation as per 'TRAI's Recommendation on Migration of FM Radio Broadcasters from Phase-II to Phase-III' **a**nd would unreasonably increase the Reserve Price.

Hence, inflation factor should not be applied and exclusion will lead to a fair price discovery and lower base price for the ascending auction.

c) *As per para 2.31 of the CP* ***FM Radio Channel Valuation based on listenership*** *is to be calculated by taking into account the consolidated value derived from the following three types of FM Radio receivers:*

Standalone Radio receivers/transistors *– State-wise data on percentage households possessing a radio/transistor can be obtained from the 2011 census*

FM Radio receivers integrated with Mobile handsets *– wireless teledensity data (as on 31st March 2012) available with TRAI can be used to estimate the number of mobile handset based FM Radio receivers.*

FM Radio receivers installed in passenger vehicles *– No Of passenger Vehicles registered with the respective State Transport Department can be obtained.*

Radio is a free to air medium, the number of listeners is not the most appropriate indicator as it does not reflect earning ability of a city. **Radio (C.1) and Mobile density (C.2) do not translate in revenue generation,** hence the same should not be given equal weightage with No of Passenger Vehicles (C.3) which reflects the earning ability.

We propose that Radio (C.1) and mobile density (C.2) together should be given weight age of 50% and No of passenger Vehicles (C.3) a weight age of 50%.

d) *As per Table 3 of the consultation paper,* ***States have been indexed and categorised*** *into three groups based on Gross State Domestic Product (GSDP).*

We request you to please specify the cut-off values considered by TRAI in order to classify the states in 3 different categories viz. J, K, & L.

We also request you to specify the cut-off values considered by TRAI in order to classify the states based on listenership and Valuation based on Gross Revenue potential.

Further, the following anomalies should be corrected:

1. Differences in State GSDP Classification

- Asansol classified as **Category 'K' as per Table 3** and **Category 'L" as per Table 4**
- Srinagar classified as **Category 'K' as per Table 3** and **Category 'L" as per Table 4**

2. **Differences in Population Classification**

- Latur is classified as **Category 'C' as per Table 6** where as **it is D Category city**
- Chandigarh, Pondicherry and Panjim **have not been classified as per the State GSDP Grouping.**

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.

Ans.2. It is to be noted that in Phase-II the reserve price determined post- bidding was Reserve One Time Entry Fee (**ROTEF**) (i.e. 25% of highest valid bid in that city). However, in only 21 cities (out of 91) all frequencies were fully allotted and the balance frequencies were left unallotted. This shows that the ROTEF in Phase-II auctions in the year 2006 was also a very high figure and therefore many frequencies were not taken by any player in the auctions.

Hence, the reserve price for FM Radio channels in a new city should not be set equal to 0.8 times but at 0.25 times of the valuation of FM Radio channels in that city.

We request that the reserve price for these new cities should not be kept at a very high level as it will jeopardize and reduce participation in the Phase III auctions. Further, the radio broadcasters will have to additionally spend huge monies on marketing, setting up infrastructure and recruit management personnel. As even AIR on date does not have adequate infrastructure and facilities, these new cities will definitely take longer time to payback. It will also affect IRR on all investments as gestation period will be longer making it unviable.

Q3. Stakeholders may also provide their comments/ suggestions on any other issue that may be relevant to the present consultation.

Ans.3. <u>Deferred Payment Option for Auction/Migration</u>

Based on current guidelines the migration fee payable by existing players to migrate to new regime and NOTEF by successful Phase III bidders has to be paid upfront and in full. This would entail as explained hereinabove a capex of Rs. 3,000 Crores which against their annual turnover of Rs. 1,500 Crores, amounts to 200% of their annual revenue.
Such high upfront payments may significantly reduce participation in the Phase III auctions and will also affect payback and IRR on all investments as gestation periods are longer making it unviable.

Since this is already allowed to Telecom, where the funds involved are much larger, there should be no hindrance to allowing it for a much poorer and at least an equally critical industry.

The telecom industry which is much larger than the Radio Industry and which has an annual turnover of Rs. 3,00,000 Crores has already been allowed a deferred payment mechanism for the recent spectrum auction in 1800MHZ and 900 MHZ Bands. It is pertinent to note here that the total spectrum fee in the auctions was Rs. 61,000 Crores, which against the annual turnover of Rs. 3,00,000 Crores, amounted to 20% of their annual revenue.

This option will also increase the bidding capacity of participants and is likely to result in higher auction prices for the Government.

On the lines of the recent spectrum auction polices for Telecom, we request a deferred payment mechanism for the migration fee and NOTEF as under:

Upfront	-	25%
Moratorium	-	2 years
Balance payment	-	Annually over the license period

For **Reliance Broadcast Network Limited,**

SD/-

Authorised Signatory