

AROI Response to TRAI Consultation Paper on Reserve Price for Auction of FM Radio Stations

Q1. Do you agree with the methodology used in TRAI's recommendations dated 15th March 2015 for valuation FM Radio channels? You may also suggest an alternative approach/ methodology with details and justifications.

Answer to Question 1

a. Trai methodology

The radio industry is going through one of its worst phases, with a sharp drop in revenue, especially in government advertising. Trai data also indicates a drastic drop in revenue per station (Please see our answer to Question 2 below).

The methodology used by Trai therefore does not reflect ground realities, except for it having been based on the actual gross revenue earned by radio stations in similar cities. Trai should have also considered the actual profit / losses along with the revenues for estimation, and calculated NPVs (net present value) of such profits or losses. Please note that for small towns (C & D categories), it is very difficult to meet the high inbuilt expenses (18 percent GST, 4 percent annual fees, appx 10 percent fees to Prasar Bharti for CTI , High WPC fees etc), let alone operating expenses like salaries, music royalty etc of a station, Therefore for small and medium cities (C & D category), any valuation in current economic scenario would be negative, giving at best a zero Reserve Price on basis of expected Net Present Value of future profits/losses.

Further, data used to estimate listenership etc is again based only on estimates, and may have adversely affected valuations. The factor of 0.8 used to calculate reserve price is also very high.

b. Government methodology

The Government formula for reserve prices, based on the highest bid received in a similar class of cities in a region , has given erroneous results for class C towns, due to classifying cities like Chandigarh (capital of two high income states Haryana and Punjab) as a C class city. This , at appx Rs 15 crores, has effectively closed doors for bidding in C class towns in north India , as the total advertising potential per operator in 15 years will be less than the reserve price of Rs 15 crores. Huge losses will result therefore there will be no bids. Unless such anomalies are removed, the Government formula of reserve prices will only result in most stations remaining unbid and vacant.

c. Aroi recommendation

In light of the following inherent factors that will affect auctions of small towns i.e.

- i. Low income potential but high socio-economic growth influence potential. While radio stations may not earn initially, their influence in socio – economic growths of small towns is generally phenomenal. To make India a 5 trillion economy, high growth in small towns is essential, as is the presence of a vibrant media like Radio,
- ii. General absence of large operators in auctions due to skew in favour of large cities (15 percent national limit as compared to 40 percent city limit will favour investment in larger cities with higher revenue potential instead of small towns). Only regional media houses / very small operators are therefore likely to take part in auctions. It may therefore be proper to have a common cap of 40 percent all across, rather than having separate city and national caps.
- iii. Very low initial revenues and profitability.
- iv. Non bidding of frequencies result in wastage of national resources as frequencies will lie idle for a long time. In fact many frequencies have been idle for last 3 years. It is in National Interest, that resources allocated to Radio are not kept wasted.

Aroi recommends that Reserve Price in small towns should be kept at zero and the market determines the bidding price. The Government fees should be linked to revenue,

However, if this is not considered feasible by Government, an up-down methodology may be used for auctions. If at a particular Reserve Price, the number of bids are less than number of stations put up for bid, then the Reserve Price be reduced by say 10 percent , progressively till bids equal stations put up for bid. Similarly, if bids are more than the stations put up for bid, then the Reserve Price be increased by say 10 percent till such bids and stations put up for bids are equalized.

Q2. Can the Phase-III policy i.e. the highest bid price received for a city in Phase-II continued to be reserve price for the existing cities? If yes, is there a need to account for the inflation? If no, please suggest approach/ methodology for existing cities with justification.

Answer to Question 2.

There are errors in classification of certain cities like Chandigarh, resulting in erroneous extrapolations of reserve prices. As Reserve Price is general a factor used to drive away non serious bidders, enhancing it for inflation or other factors is not recommended.

In fact the data on number of stations and revenues shown in Trai consultation paper shows that there is a sharp drop in the revenue per station over last two years.

Year	Number of stations	Total Revenue lacs	Revenue per station
2016-17	243	2047	8.42
2017-18	324	2170	6.70
2018-19	356	2381	6.69

Therefore instead of scaling up by inflation factor, there may be a need to reduce Reserve Price due to current economic conditions.

It is considered necessary by the Industry to highlight the following

- i. Private FM industry is currently growing through a revenue and financial crisis, This is mainly due to a huge drop in Government Advertising. The overdue payments from Government (DAVP, NFDC, BSNL) have also risen to over Rs 80 crores, nearing almost the annual fees payable by all radio operators combined to the Government, Therefore, Operators have to borrow to pay fees.
- ii. The affect has been more pronounced in small (C&D category) cities which are highly dependent on Government Advertising and Retail.
- iii. The Industry is of the view that, in light of short and medium term economic outlook, a revenue based model for Government fees, rather than a One Time Entry Fees model, is favourable for both the Radio Operators and Government. The Government gets fees based on radio revenues. The industry survives and grows.
- iv. Policies of Government that are milking small town radio stations are
 - Compulsory high fees to Prasar Bharti for use of CTI and tower rentals
 - Increased WPC fees. D category town is charged the same as a A category town where revenues are 10 to 20 times more.
 - A high GST rate of 18 percent whereas newspapers, which are main competitors of radio in small towns, are charged 5 percent. Radio therefore pays an extra 13 percent to Government out of total revenue earned from advertisers. It is important to note that Ministry of Information & Broadcasting has already recommended to GST council a rate of 5 percent to GST council. However this is pending.

The revision in reserve prices and fees methodologies may also necessitate similar adjustment for operators who have already been allotted frequencies in these towns.

Q3. Do you agree that various technical changes, behavioral changes in listeners, availability of devices for FM Radio listening will be duly captured by the variables – Population, Per capita income, Listenership of FM Radio, and Per capita Gross Revenue (GR) earned by existing FM Radio operators, as recommended by TRAI in 2015, for valuation of FM radio channels in new cities? If not, what additional variables need to be considered for truly reflecting the valuation of FM radio channels in new cities? You may also suggest alternative variables with details and justifications.

Answer to Question 3.

In our view, till exact data is researched, the use of any estimation for radio listenership would be only indicative, with a high rate of error. Further the highest percentage of listenership is through mobile handsets.

We reiterate that the net present value of future profits (which is the standard accounting formula for valuation) is the true reflector of valuation, We also wish to highlight that most stations bid for in Phase 3, are projecting negative NPVs.

Q4. How should the present listenership of FM Radio in each state be estimated? Please provide your suggestions with justification.

Answer to Question 4.

As listenership is highly sensitive, affecting decisions on advertising including allocation between different competing operators, this is best left to scientific research. Meanwhile IRS data , which is available for radio listenership in select cities , could be used.

Q5. In case methodology as recommended by TRAI in 2015 for determining reserve price for FM Radio channels in new cities is adopted, should the reference price be taken as the average of successful bids received in Phase-III auction held in 2015 and 2016? If no, please suggest an alternative proposal with justification.

Answer to Question 5

Our answer to Question 1 answers this question as well in detail.

Q6. Do you agree with the proposal that the reserve price 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 no, suggest an alternative proposal with justification.

Answer to Question 6

In our view it should be zero or in the alternate an up/down flexible Reserve Price as described in our answer to Question 1.

In case Up/Down principle is applied, Reserve Price could be started at 0.25 times the valuation and scaled up and down basis Market response.

Q7. Should the auction of remaining FM channels of Phase-III be done delinking it from technology adopted for radio broadcasting? Please give your suggestions with detailed justification.

Answer to Question 7

We agree that auctions should be delinked from technology,

Q8. In case auction of remaining FM channels of Phase-III is delinked from technology, whether FM Radio broadcasters who adopt digital technology be permitted to broadcast multiple channels on single frequency? Please give your suggestions with detailed justification.

Answer to Question 8

To avoid a very confusing situation, wherein existing operators are not allowed a technology but new entrants are, ALL operators should be allowed use of digital frequencies and multiple broadcasts in allocated frequencies.

The Government will get the 4 percent share of revenue as fees and therefore increased revenue from additional channels will result in corresponding increase in Government fees,

Q9. Stakeholders may also provide their comments/ suggestions on any other issue that may be relevant to the present consultation