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Foreign Satellites in the Indian Market: A Faustian Bargain?

Two quick facts that no one disputes: the Indian DTH market is on fire and there is a shortage of Ku-band capacity for DTH services in the country. With ISRO unable to launch Ku-band capacity on its own Insat fleet fast enough to meet the needs of new DTH players, it along with its commercial operating arm, Antrix, have been turning increasingly to foreign satellite operators to secure the Ku-band satellite capacity needed to fuel the Indian DTH market. SES New Skies has long had a deal in place to carry DISH TV and in the last few weeks Antrix signed contracts with MEASAT and ProtoStar to secure additional Ku-band capacity for two new DTH services.

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At first glance this appears to be a great situation for satellite operators looking to build their businesses in India. But a closer look at the details shows that the Indian transponder market is not without its potential pitfalls. One of the biggest questions is just how many of the DTH platforms will survive long-term. In late October, Infinium Ltd of Ahmedabad announced that it was applying for a DTH license. Infinium, if it receives its license, would join six other commercial companies that are already in the market to one degree or another plus the essentially free-to-air DD Direct Plus platform from national broadcaster Prasar Bharati. It is NSR's view that India will buck the typical worldwide trend of only one or two DTH platforms per country. The enormous diversity of the country both in terms of language and culture makes India look more like a Europe when one is assessing demand for the number of DTH platforms. However, it also seems possible that one will see an eventual shakeout with the stronger DTH platforms picking up some of the smaller ones if for no other reason than to increase scale. The biggest unknown here, which no one can answer today, is when this might occur. For the satellite operator entering the market, the risk is being able to sign a capacity contract with the yet unknown winners so as to ensure long-term leasing revenues. Even if they end up carrying a DTH player that is eventually bought out, the satellite operator can hope that the new owner will maintain the capacity contact either for expansion or other uses, but it can be hard to sell this fallback position to one's board of trustees.

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Adding further to the risk of the Indian DTH market, ISRO has made no secret of its plans to launch several new satellites with the stated intention of migrating DTH services off of foreign capacity and onto national Indian satellites. This is compounded by the fact that credible press reports have stated that the Indian DTH clients are paying around the equivalent of US\$1 million per year per transponder for Ku-band capacity on the Indian Insat fleet. Industry rumours are that the Indian DTH clients don't expect

to pay significantly more than this amount for foreign Ku-band capacity as well and it is understood, though with little in the way of hard facts, that Antrix has been pushing quite hard at the bargaining table when it comes to the leases it signs with foreign satellite operators. For those not in the know, foreign satellite operators are not allowed to lease directly to the client in India, but instead must go through Antrix who acts as a reseller of their capacity to the Indian end users.

While there will be some variability, most in the industry will agree that a satellite operator needs to earn an average of at least US\$1.1 million per leased transponder for the typical Western produced satellite in order to have some hope of replacing the satellite at the end of its service lifetime and to pay to operate it, cover insurance and debt, market and sell the capacity, and have some modicum of profit at the end of the day. All of the above issues raise the question of why would a foreign satellite operator lease capacity into a market where there are so many DTH players it is hard to predict the long-term winners, the stated intention is to replace them as soon as national satellites can be launched, and to negotiate capacity contracts that are just on the limit of, or even under, profitability? Are foreign satellite operators entering into a sort of Faustian bargain in the hopes that the short-term gains are worth the risk of losing their proverbial souls (or at least businesses) in seeking to break into the Indian market?

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Of course, things are never quite so simple in either the satellite industry or India. There can be a number of other strategies that are being employed by foreign satellite operators that explain the apparent contradiction described above. One strategy is that a satellite operator is expecting growth to come from another (non-Indian) market a few years hence and is simply being opportunistic in leasing capacity that might otherwise sit largely unused for several years until the planned for demand growth occurs. In such an instance it makes perfect business sense to seek out a short-term lease, even at somewhat low lease rates, and to reallocate the capacity to the emerging (non-Indian) market where one can obtain much better pricing in a few years time.

Another strategy that may be employed is that the expectation of demand growth in India is so high that a more or less permanent situation of undersupply will exist. When short-term contracts expire, and a suitably large base of DTH subscribers are looking at the satellite in question (this assumes of course that one has signed with one of the winning DTH operators), then the satellite operator may feel that they will have the upper hand at the negotiating table because of the high costs of repointing dishes and lack of alternative capacity means that they can start to dictate capacity pricing that would recuperate earlier losses.

Aiding in this position is the assumption that the companies behind the new DTH services in India, the likes of Tata, Reliance, Bharti, are big

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enough and have enough influence with the government that they could actually begin lobbying for the long hoped for “open skies” policy for satellite services in India. DTH in a few years time could be such an important business line for them that they are no longer willing to abide by the admittedly convoluted process they now need to go through to obtain the satellite capacity that is so critical to the success of their DTH businesses.

Besides, there is also the unpredictable nature of the satellite market that could also sway the game. It only takes a single launch or in-orbit failure to completely change the supply/demand situation such that those that appear to be in the driver’s seat today are quickly superseded by those that seem to be disadvantaged by the current market structure. For example, another failure of an Insat satellite and the threat to move Ku-band capacity to another non-Indian market may be all that it takes for a satellite operator to essentially dictate their terms to ISRO and Antrix.

The Indian DTH players have been very fortunate that foreign satellite operators have, or will shortly, the capacity on orbit they need now and ISRO/Antrix have been able to lease said capacity. There is growth occurring throughout Asia for Ku-band satellite services and one could easily imagine a situation where India desperately needs capacity but none is to be found because foreign operators simply can get a better deal elsewhere.

If there is one moral to take out of the satellite market in India, it is that at the end of the day both ISRO/Antrix and foreign satellite operators are dependent on one and another. It is growing ever more apparent, even if many in the Indian government refuse to see it, that ISRO cannot be the sole long-term source for satellite capacity for DTH services in the country. In every business, the maxim of diversification is always a key strategy and putting all the “eggs” of the growing DTH market into the “basket” of the ISRO fleet would almost certainly prove to be a poor decision at some point in the future.

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Conversely, foreign satellite operators must be reasonable in their expectations for the Indian market. Growth is certainly strong in India for DTH and numerous other applications, but the demand potential does have limits and throwing too much capacity, both current and future, at the market almost guarantees that the all too often repeated cycle in the satellite industry of oversupply will punish every satellite operator in the region, even if they are not at all involved in the Indian DTH market.

Finding the right balance between dependence on national satellite and foreign satellite assets in serving the Indian DTH market will not be easy and will most likely take time. Yet, NSR would claim that the sooner that such a balance can be reached, so much the better for all involved. Both foreign and national satellite operators will have profitable businesses in



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the country, users of satellite capacity will have access to a diverse base of capacity supplies from which they themselves can choose the best capacity for their application at the best price, and most importantly the Indian consumers will win because they will more readily benefit from the entire gamut of services that satellites make possible.

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