

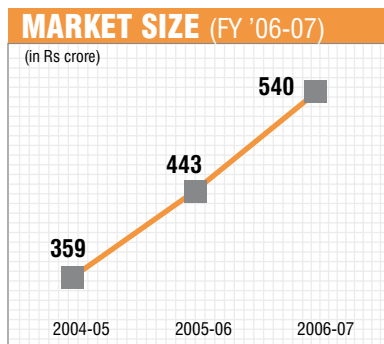
Slow and Steady Wins the Race

Reduction in unit price paved way for growth, but regulatory issues still remain

The industry added 11,719 VSATs on the shared hub in FY '06-07, with a 22% growth over installed base at the end of FY '05-06. The total number of VSATs on the shared hub crossed 60,000 VSATs in FY '06-07. VSATs continued its expansion and growth in existing market segments of broking, banking, and manufacturing, and adoption of VSATs in new market segments of distance education, tele-health, e-Governance, retail, and SME.

Though VSATs were being used as a backup to MPLS, ISDN, or any wireless technology, volumes show the satellites are still there on the minds of CIOs. The unit price has crashed to an all time low, much beyond the expectations. The unit price has come down to Rs 60,000-80,000 from around Rs 1 lakh last year. If industry sources are anything to go by, one vendor has sold units for as low as Rs 35,000.

The key achievement of service providers last year was the breakthrough in some sunrise segments that have been high on importance worldwide, and are seeing tremendous growth in India. The digital cinema initiative was one such in the entertainment industry. The next breakthrough is in the cellular backhaul segment, where satellite provides a backhaul to locations that are not reachable by microwave or fiber. The third one is in the retail sector, where VSAT provides connectivity for credit and debit card authorization service. This is more cost-effective than the traditional dial-up connection, and saves significant amount of delay. The traditional segments that include government and defense, BFSI, oil and



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gas, and other enterprises continued to be the growth drivers for VSAT service providers. Robust buying by the financial segment was also the key drivers of growth. High availability of offering for business continuity was one of the key applications that witnessed exemplary growth this year.

THE RACE

As per V&D100 survey, Hughes tops the list of VSAT services industry. Its revenue for FY 2006-07 was at Rs 120 crore which is 25% growth over the previous fiscal. It has added 5,428 VSATs to its kitty, totalling 20,240. The growth drivers for Hughes Communications were e-learning, oil and gas, banking, digital cinema, retail, and telecom. The company did projects for Indian Railways, ISRO, and Reliance Petroleum. It has also got orders from various banking organizations that include UTI, ICICI, and Indian bank. The company now intends to be a complete managed network service provider. Hughes has

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The Top Players (FY '06-07)

Rank	Company	(in Rs crore)		Growth (in %age)
		FY '05-06	FY '06-07	
1	Hughes	96	120	25
2	HCL Comnet	136	103	-24
3	TATA Indicom	60	75	25
4	Essel Shyam	54	73	35
5	Others	97	169	74
	Total	443	540	21.5

*Others include: Bharti Airtel, GNFC, ITI

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also supplied VSAT for backhaul to mobile service providers like Hutch, Idea, Reliance, and Aircel.

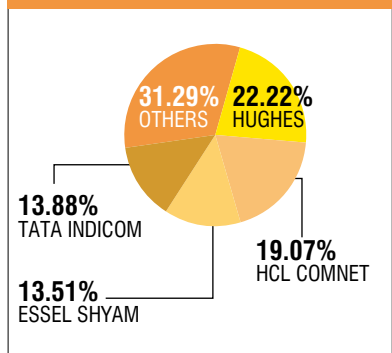
In FY '06-07, HCL Comnet registered revenue of Rs 102 crore showing negative growth of 25% and is placed at second position. The company's revenue for the FY '05-06 was at Rs 136 crore. But, the company has managed to get some good orders from various sectors. It has got orders from Orissa Treasury, Berger Paints, Mahindra & Mahindra, Lotte India, Air Deccan, and Simplex. This year also HCL Comnet managed to be in the good books of SBI, and got some deployment orders. The company implemented VSAT based networks for SBI for its core banking projects.

In FY '06-07, Bharti Airtel bagged orders for about 5,000 VSATs, and installed 1,500 VSATs on its shared hub services till March 31, 2007, totaling 13,500 VSAT installations across the country. In FY '06-07 Airtel bagged a large order from ICICI Bank for 1,000 VSATs, which will be deployed for ICICI Web Trade, and ICICI Bank in different phases, 250 VSATs for Union Bank of India, and 250 terminals for Sahara Group. Also, Sahara group has asked Airtel to upgrade its 1,450 VSATs. Airtel has also managed to get large orders from Indian Army for system integration projects using VSAT technology.

Similarly, Tata Indicom VSAT services registered a growth of 25% to the tune of Rs 75 crore. The growth area was mainly the enterprise sector. It has added more than 1500 VSATs this year and its total VSAT base reached 4,100. The company provided services in seg-

Market Share

(based on revenue) (FY '06-07)



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ments such as stock broking, extended enterprise, and banking. The major clients included Karnataka Bank, ACC, and Tata motors. The company is now seeing backhaul connectivity as another area of growth.

In this fiscal Essel Shyam generated revenue of Rs 73 crore which is a growth of 35% over the previous fiscal. The company did projects for ONGC, broadcast service industry and stock-brokers' networks. Its revenue for this financial year mainly came from the increase of services usage. They have market share of 60% in broadcast services industry. It has got some good orders from MCCL (Star News) teleport&DSNG Network, ONGC (MFTDMA Network), LKP Stockbrokers, and CSB TV (Bangladesh).

NEW GROWTH MARKETS

The market share of VSAT services in the urbanized fraternity of customers is on the point of saturation. The industry envisages only about 10-15% growth in these areas. However, new

TOP PLAYERS (Based on Units) FY '06-07

Service Provider	VSATs as on		No of additions (FY '06-07)	Growth (in %age)
	March 31, '06	March 31, '07		
Hughes	14,812	20,240	5,428	36.64
HCL Comnet	16,541	20,000	3,459	20.91
Bharti	12,005	13,500	1,495	12.45
Tata Indicom	2,570	4,100	1,530	59.53
Essel Shyam	2,490	2,300	(190)	-7.63
ITI	50	50	0	0
GNFC	23	20	(3)	-13.04
Total	48,491	60,210	11,719	24.16

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markets in semi-urban, rural and remote areas can propel and sustain a healthy growth in the coming years.

Distance Education: This sector has been growing steadily over the last two years, and has great potential to grow further. More so because of the EduSat program of the Department of Space which envisages providing distance education to schools and colleges with a projected VSAT base of 35,000 in the next three years.

Inventory Control of Consumables: Oil companies like BPCL and IOC are using VSATs to update their inventory for bulk storage and highway outlets. HLL is using VSATs in a big way to update inventories in the remote consumer markets.

e-Commerce: A successful example is the use of around 6,000 VSATs by ITC Chaupal.

e-Governance: The central government, and many state governments have embarked upon the use of VSATs for e-Governance.

e-Finance: Use of more VSATs for ATMs and other banking activities.

Tele-medicine: High potential market, but the high cost of service is a barrier at present.

Internet Broadband Penetration: A recent policy change has cleared the way for commercial service providers to deploy VSATs for proliferation of Internet, and broadband services in rural and remote areas.

THE SPEED BREAKERS

At present, VSAT services are tied to INSAT satellites. Allow the operators

to use any satellite, and see how the services become affordable in a competitive environment. The TRAI has repeatedly said that VSAT technology is a viable solution not only for rural connectivity, but also for penetration of Internet and broadband in these areas. The government will not be able to meet its broadband targets for 2010 unless it takes bold and radical steps such as the use of satellite technology, which is most suitable for short-term results.

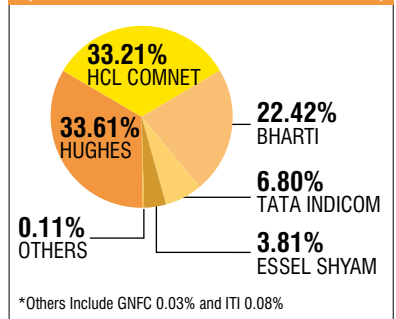
The biggest constraint to grow in rural areas is high artificial cost incurred due to government policies. The greatest obstacles to rural development—large distances and inadequate infrastructure—can be overcome by access to virtual institutions that provide banking, education, health care, neonatal information, agriculture advice, and so forth. VSATs can play a major role in this.

The VSAT services in urban areas are taking a beating from alternate technologies. Its future market lies in the rural areas where VSATs can be deployed effectively for Internet and broadband services such as e-education, e-Governance, e-commerce, e-finance, telecom, tele-medicine, and entertainment. VSAT services have to become more affordable in rural areas. It can be used to meet the national objectives for rural upliftment. Any half-hearted approach will stagnate the industry.

OUTLOOK FOR FY '07-08

There is a robust demand for both Ku as well as Ext-C band services. The demand is from various industry

Market Share (FY '06-07) (Based on 60,210 VSAT Units)



V&D estimates

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verticals, and it provides diversified growth. The key industry segments that are expected to contribute strongly in FY 2007-08 are banking, e-Governance, stock/commodity trading, defense, distance education, and retail. There is a higher acceptance of VSATs as a broadband access medium by a much larger addressable market of SMEs—which will provide additional growth compared to the traditional enterprise and government segments. The industry aims at touching 75,000 VSATs on the shared hub in FY 2007-08, and 1,000,000 VSATs in three years time.

Like last year, the industry this year is quite enthusiastic about digital cinema value proposition. The value of Indian cinema market is around \$1.5 bn, but 80% of films being made in India do not give the expected returns due to various factors. One of the major factors is the high price on distribution. The industry feels that if cinema could be distributed digitally, it would be a win-win situation for both the industries—no doubt the viewers would be king again.

In fact, everything except the open sky policy seems to be working in favor of the industry. The broadband policy supported usage of VSATs in high-speed Internet connectivity. The SOHO and SME segments have huge potential, but the general perception toward VSATs and a cultural mind block prevents mass usage in these segments. Unless volumes pick up, this segment would not be a viable business proposition for service providers.

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