

Entertainment Network India Limited's (ENIL) Response

to

TRAI's Consultation Paper No.: 17/2019 dated 16th Oct, 2019

on

Reserve Price for auction of FM Radio channels

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Addressing the flaws in Phase-3 policy first:

1. There is a lot that is wrong with the Phase-3 FM radio policy. Unless that is fixed, there is little hope for the success of any auctions in the future. It must also be remembered that Batch-3 stations are very small, even smaller than many Batch-2 stations. The chance of failure of auctions is therefore that much higher, unless the policy is first amended. Through this note, we would like to request the government and TRAI to amend the policy first before carrying out any further rounds of auctions.
2. The best way to understand what is wrong with Phase-3 policy is by asking why Batch-2 auctions failed so badly. Out of 266 licenses that were put up on auction, less than 25% were successfully bid out. Several leading broadcasters refused to participate in this batch, primarily because they found the whole auction financially unviable. If the government and TRAI don't pay attention to the reasons for the failure, both should know that the Batch-3 auction could be an even bigger failure. In fact, we would strongly suggest that the government stops Batch-3 auctions and instead comes out with a Phase-4 policy first, a policy that addresses the flaws of the current policy. An amended policy will ensure everybody gains – the public, the government itself and incumbent/future broadcasters.
3. It is also important that the government and TRAI keep in mind the pressure the FM radio industry is facing from the digital revolution unfolding in the country. There's cheap data, a huge growth in penetration of smart phones which come without FM tuners and launch of multiple Indian and global music apps. All these are hurting FM revenues, making viability even more difficult.
4. The FM radio industry was never really a “golden goose” even in the past, but whatever it was, it is surely getting hit for a variety of reasons. Phase-3 policy is also contributing to this. Amending the policy is needed urgently, before Batch-3 auctions.

Reasons why Batch-2 auctions failed:

5. (a) Very high Reserve Fees: The complex formula that TRAI worked out for new cities under the Phase-3 policy is the main reason why Batch-2 failed. Batch-1 auctions were more successful because the reserve fees were *somewhat* reasonable (they were unreasonable in some cities, and auctions did fail in those cities).
- (b) It looks as if TRAI's real interest was to maximize revenues for the government, even though it kept saying (and still does) that that was not the purpose. Even in this paper, TRAI mentions in 2.1 that *"The expectation is that FM radio will contribute towards development of society, fulfil the entertainment and information needs of citizens, and promote socio-economic activity. The revenues generated from the auction process are incidental to the realization of these larger societal objectives.* If this is true, then the minimum test that any auction should pass is that ALL frequencies should be allotted at the end the auctions.
- (c) By that yardstick, Batch-2 auctions failed hugely. The numbers prove that. **None of the 132 frequencies offered in 41 new cities got any bids at all. Further, of the 92 frequencies offered in 27 other new cities, only 40 were successfully bid for. In total, out of 224 frequencies offered, only 40 bids were received, a success factor of 17.9%.** Such a colossal failure warrants a complete overhaul of the policy, not just tinkering at the edges.
- (d) There is a fundamental flaw in the complex model that TRAI has used to calculate reserve fees. It is that it is a purely theoretical model, one that impresses the academically oriented, but leaves the actual practitioners cold. TRAI has totally ignored data from other media verticals that already operate in these cities viz newspapers and magazines. TRAI has failed to even validate its theoretical model against actual revenues of newspapers and magazines. If TRAI had done so, it's recommendations would have been far more robust and reasonable. Radio bidders come mostly from existing media backgrounds (mostly newspaper

backgrounds) and have access to the real advertising potential in these cities. Many bidders realized the futility of participating in the auction process when they saw the reserve fees.

- (e) It would be fair to say that the 82% failure of Batch-2 auctions is vindication of the fact that the TRAI's formula failed. The whole formula needs to be thrown out and the exercise of calculating reserve fees started from scratch. This could take time, but it would be worth the effort. If TRAI and Government want to save time, then there is an alternative solution available, in the form of a modified auction design, discussed in detail in a later section in this note.
- (f) To be fair, all blame does not all lie on TRAI's doorsteps alone. TRAI's reserve fee recommendations were too high, but the government made matters worse by raising them further. Both are responsible for the failure of the auctions.
- (g) Just look at some examples that prove the point. Take the example of Dehradun, the capital of Uttarakhand. TRAI recommended a reserve fee of Rs 4.48 crores, a number that we will soon show was already too high. The government went overboard and increased it more than threefold to Rs 15.61 crores. Every single radio broadcaster protested. But the government ignored them. Not surprisingly, 3 out of the 4 frequencies in Dehradun failed to be bid out.
- (h) The logic for protesting was simple. The total newspaper market in Dehradun was estimated at Rs 150 crores per annum around the time the auctions were held. The radio market size could therefore reasonably be estimated to be in the region of Rs 15 crores per annum (10% of newspapers) – that too after 3-4 years of developing the market. This would be the total revenue of 4 players if all of them started operations. Because it's a big city, broadcasters would have to set up local offices with local teams, and incur other costs, thus increasing overall costs. As a result, the best-case assumption for EBITDA would be 30% or Rs 4.5 crores per annum (that too, after 3 to 4 years of operations). Take out depreciation, interest costs and taxes (if any) that go below EBITDA, the maximum "amortization of OTEF" that a broadcaster can pay to get to zero Profit Before Tax (PBT) is barely 10% - or Rs 45 lacs per annum. For a 15-year license (simplistically, without assuming time cost of money), Dehradun's total OTEF

should not have exceeded Rs 15x45 lacs = Rs 6.75 crores. Remember this is the OTEF that should have emerged at the END of the auctions. So the reserve fee should have been much lower, possibly 25% of Rs 6.75 crores or Rs 1.69 crs. This would have encouraged multiple bidders to participate and they would have bid and raised the license fee in the auction.

- (i) What did TRAI recommend? Rs 4.48 x 4 = Rs 17.92 crores. What did Government of India do? Raised it to Rs 15.61 x 4 = Rs 62.44 crores. Is it any wonder then why the auctions failed? A question might be asked why there was even one bidder that bid at all. The answer is simple. The bidder made a calculated gamble (and in hindsight, it was proved right) that it would emerge as the sole player and keep the entire Rs 15 crore market to itself. Indeed, this is what happened. TRAI and Government of India's wrong reserve fee decision created a monopoly in Dehradun, seriously hurting public choice, its own revenues and possibly, even the financial viability of the winning broadcaster.
- (j) The same is the story with cities in the South. Take Alleppey as an example. The total newspaper market was estimated to be less than Rs 30 crores in 2015. Radio could at best be Rs 6 crores (radio is more developed and has a bigger share in the South – say 20%). Considering that Alleppey is a small town, one can assume a high degree of networking and hence lower operating costs. The best-case EBITDA would thus be 50% (after a few years of operations). After depreciations, interest and tax (if any), the ability to absorb “amortization” to get to zero PBT would barely be 15% or so. This comes to about Rs 90 lacs. Maximum OTEF viable would be Rs 15 (years) x90 = 13.5 crs for the market, or Rs 3.38 crores per station. Reserve fee should have been kept at 25% of this – or Rs 0.84 crs. What did TRAI recommend? Rs 4.23 crores. And the government? Rs 7.02 crores. No surprises again why the bids failed. Two licenses out of four were bid out. The two winners were local newspaper giants who factored in “other” advantages to their newspaper businesses when they bid for the frequencies. Again, the government and TRAI created a duopoly, seriously affecting public choice, its own revenues and broadcaster viability.

- (k) By keeping reserve fees unreasonably high, both the TRAI and Government have failed the people. In Madhya Pradesh for example, out of 17 new cities from D category (51 frequencies), NOT ONE was bid out. And in the only city in C category, Ujjain, only one frequency out of four was bid for. Point 1.2 of TRAI's note says "*FM radio broadcasting is considered as one of the popular mediums to provide entertainment, information and education*". As a result of its flawed policy, both TRAI and the Government have failed the people of MP.
- (l) It's the same story repeated in every city. Most badly affected were the smallest – D category – the failure rate being 85% or so. In C category cities, the failure rate was 79%. In contrast, in Batch-1 auctions, where mostly the bigger cities were auctioned, and where, as mentioned earlier, the reserve fees were more reasonable, the failure rate was a relatively smaller 29%. Radio has become a big city business. Smaller cities where entertainment options are limited have been left out of the FM opportunity.
- (m) Apart from making reserve fees robust, there is one other advantage of using newspaper revenues as the basis for deriving reserve fees. It is that newspaper revenues capture the impact of digital disruption (cheap data, smart phones, lots of news apps). Newspapers have been as badly hit by the digital revolution as radio.

6. Auction methodology:

- (a) Compounding the problem of high reserve fees was the choice of auction methodology. While the methodology was undoubtedly transparent, its basic flaw was that it was incapable of handling situations where the demand fell short of supply. If demand was zero, or less than the supply of frequencies in a market, the auction could not reduce the price in subsequent rounds as it logically should have. But if the demand was higher than supply, it readily increased the price in subsequent rounds. When reserve fees were already too high, this flaw of the auction methodology proved fatal and caused the auction to fail.
- (b) The solution to correct this flaw is simple. And technically easy to implement. All that is needed to be done is that the auction methodology should allow for subsequent round prices to move both upwards and downwards, depending on

the demand-supply mismatch. The same formulas that determine quantum of upward price movement should apply to downward price movement too. For example, as per the auction rules, if the demand is in excess of supply by 1-3, (say demand of 6 v/s supply of 4), then the price moves up by 5%. Then, by the same logic, if the demand is less by 1-3 (say demand of 2 for supply of 4), then the price should also fall by the same 5%. This will ensure that the right license fee is determined for each market.

- (c) In Dehradun for example, if the demand was only 1, but supply 4 (shortfall of 3), then the round price should have reduced from Rs 15.61 crs by 5% and gone to Rs 14.83 crs. This price drop should have continued till a demand of exactly 4 was established. This would have ensured that that four successful winners were found, public interest was served by having more programming options, the government earned more in license fees and a monopoly was not created. Equally, it would have helped determine the fair market price for the licenses.
- (d) The auction's job is to match demand with supply. This matching can happen in either of two scenarios. One, when starting demand is higher than supply. Two, when starting demand is lower than supply. There is absolutely no reason for the auction methodology to cater only to the first scenario.
- (e) Modifying the current ascending auction to an up-down auction will also ensure that the Government wastes no time in re-determining reserve fees. It can start with any reserve fee (two options offered in reply to questions 1 later) without any worry.

7. Scarcity of spectrum:

- (a) By not offering all available FM spectrum in the auctions, the government is wasting a precious resource. Worse, this precious resource is losing value every passing year because the digital revolution is hitting the FM business. Government is thus causing a permanent loss to its own finances. Through this note, we would like to reiterate our request for new frequencies to be released in all A+ and A category towns and the same be put through auctions either in Batch-3 itself or as a part of Phase-4 policy.

- (b) The government has probably forgotten that airwaves are public goods. The Honourable SC ruled in 1995 that *“The airwaves or frequencies are a public property. Their use has to be controlled and regulated by a public authority in the interests of the public”*. How is public interest served if the government fails to put all available spectrum to public use?
- (c) In its 2012 report on “Prescribing Minimum Channel spacing, within a license service area, in FM radio sector in India”, the TRAI recommended: *“The minimum channel spacing i.e the frequency separation between the adjacent channels’ carrier frequencies is an important parameter which determines faithful reception of individual channels at the listener’s FM radio receiver set. Presently the minimum channel spacing is generally 800 KHz in the country. The Ministry of Information and Broadcasting had requested TRAI to reconsider the issue of minimum channel spacing within a license service area in the FM radio sector. On examination of the issue through a consultation process, the Authority has come to the conclusion that it is now technically feasible to reduce the minimum channel spacing to 400 KHz. This would also lead to effective utilisation of the radio spectrum”*.
- (d) In 2014, in its recommendations on “Migration of FM Radio Broadcasters From Phase-II to Phase-III”, TRAI again pushed for 400 KHz separation: *“TRAI reiterates early implementation of its recommendations on minimum channel spacing of 400 KHz for FM Radio broadcast issued on 19th April 2012, which will in effect increase the number FM channels in each city for auction”*.
- (e) At stake is “effective utilization of the radio spectrum” which the government is duty bound to ensure in line with the Hon’ble SC’s order. Yet, the government has dragged its feet. As a result of this, our biggest cities have very few private channels, just nine. Any major city in the world, be it London or New York, or even Manila or Colombo, has more. The heterogeneous population that lives in these cities has thus been deprived of adequate programming options.
- (f) Further, not releasing all available spectrum for the auctions has caused huge financial damage to broadcasters. When multiple frequencies were not offered in the big cities, a scarcity was created that forced a few bidders to bid irrationally

out of what is called the FOMO (Fear of Missing Out) factor. In India's biggest FM radio market, Delhi, only one frequency was put up for auction in July 2015 (even though many more could have been made available if the government had accepted TRAI's 400 KHz recommendation). As a result, FOMO set in, and the frequency was won eventually at a totally unviable price of Rs 169.2 crores. As per our estimates, this frequency is generating under Rs. 20 crores in revenues per annum. It is almost certain that the winner is suffering from intense winner's curse.

(g) But the real tragedy is that all other broadcasters in Delhi are also suffering even though most of them stayed out of the auctions. All they did was "migrate" their Phase-2 frequencies to Phase-3 by paying the much more reasonable "migration fees". These innocent broadcasters now must pay a minimum annual license fee much higher than the 4% of gross revenues that was envisaged in the policy. That's because there is a second calculation – 2.5% of the One Time Entry Fee of Rs 169.2 crores (or Rs 4.23 crs) – that must be considered. As per policy, whichever of the two is higher must be paid. In Delhi, equivalence between the two calculations is achieved at a gross revenue of Rs 105.75 crores. As per market estimates, not even one broadcaster in Delhi has revenues this high. At least four broadcasters had revenues less than Rs 25 crores in FY19. For them, the annual license fee was in effect 17% of revenues or so (Rs 4.23 crores/25 crores). Two more broadcasters had revenues estimated at Rs 45 crores in FY19. For them the annual license fee was 9.4% (4.23/45). For the remaining three broadcasters, revenues were estimated at about Rs 60-65 crores in FY19, making their annual license fee 6.5% (4.23/65). What should have been 4% has ended up becoming 17%, 9.4% and 6.5% for the smallest, the medium-sized and the biggest broadcasters.

(h) The same reckless bidding was witnessed in Mumbai (2 frequencies, Rs 122.8 crores) and Bangalore (1 frequency, Rs 109.3 crores). As per market estimates, the two players who won in Mumbai earned under Rs 10 crores each in revenues in FY19. They are completely unviable. The winner in Bangalore was ENIL itself and I can say that we are also facing the winner's curse. The winner's curse is hurting all the

winners in Mumbai and Bangalore. But the winners have also heaped a curse on the other broadcasters for whom the minimum revenue required to fall under the 4% calculation is Rs 76.75 crores in Mumbai and Rs 68.3 crores in Bangalore. Again, as per market estimates, no broadcaster is anywhere close to these revenue levels. In Bangalore, the top broadcaster is estimated to have generated under Rs 30 crores and under Rs 60 crores in Mumbai in FY19.

8. Burdensome annual license fee:

(a) What is clear from the above examples is that the annual license fee has become a big burden for all broadcasters, not only for those who participated in auctions, but even for those who didn't. It is time to remove the concept of annual license fees from the radio policy.

(b) When Phase-3 policy was announced, there could possibly have been some justification for the government to collect annual license fees. Maybe the government wanted a continuing revenue stream for itself in the future. Maybe the government felt that the radio industry might make super normal profits and wanted a share of it. Whatever the reasons may have been, the fact is that those reasons are no longer valid. There are no super normal profits to be made in radio as clear from the results of companies. The annual license fees are too small (possibly Rs 100-125 crores per annum) for it to matter to the government. And if the government removed the annual license fees, then it would get it all up front in the form of a higher OTEF. If bidders know that there were no annual license fees, they would bid proportionately higher for the OTEF in the auctions.

(c) Removing annual license fees has also become necessary because of the new competition that FM radio is facing from digital apps. These digital apps pay no OTEF and no annual license fees to the government.

9. Very high operating costs for D category towns:

The government must appreciate that operating costs in D category towns are too high, making them fundamentally unviable. The biggest costs are the following:

(a) Studio and Transmission costs: These are basically Prasar Bharati rentals for the transmission site (tower, land, office space), the cost of maintenance personnel, annual maintenance contracts etc. We have pointed out several

times in the past that Prasar Bharati rentals are simply too high, much higher than market prices. One other reason for high costs is the rental cost of the tower. Phase-3 policy specifies the minimum height as 20-40 meters for D category towns. But most small towns can be covered by smaller heights as well. Prasar Bharati also increases rentals by 5% per annum. This makes Studio and Transmission costs just too high.

- (b) Music royalties: Though the erstwhile Copyright Board (now folded into the IPAB) ruled in 2010 that music royalties should be 2% of revenues, many labels still demand lump-sum payments, or needle-hour based payments. As a result, actual music royalties are much higher than 2%, in many cases as high as 50% of revenues.
- (c) People cost: Radio is a manpower intensive business. From transmission and studio engineers to programming teams to sales teams to maintenance staff to finance and scheduling teams, there are several people required to run a radio station. If the Government succeeds in auctioning 800+ frequencies in Batch-3, there could be potential direct employment generation of as many as 8000+ people. People costs are a huge burden for radio broadcasters, much more than for newspapers, outdoors or TV companies. People costs are as high as 20% to 30% of revenues in the case of radio at a national level and upwards of 50% of revenues in smaller towns in the initial years. They are typically under 10% for the other media.
- (d) Electricity: The government specifies ERP of 1 – 3 KW in D category towns. Given competition, most broadcasters operate at the higher end. Given various power losses, and antenna gains, a 3 KW ERP typically requires a transmitter output of 2.5 KW. Given transmitter efficiencies, the transmitter input power requirement typically is 5 KW. Add AC load and the load of other equipment in the transmission room, the total requirement of power comes to 15-20 KW per player. Such a big transmission and studio set up, operating 24 hours a day generates a big electricity bill. Added to this is the cost of diesel generator sets which are required to provide power when the regular electricity supply fails.

(e) Other operating costs: There are several other costs that go into operating a radio station like annual license fees to the government, Wireless Operating License fees to the government, BECIL charges, other legal and regulatory fees, housekeeping charges, maintenance charges, depreciation of capital items, amortization of OTEF, finance charges and cost of working capital.

10. All these costs make D category towns unviable. If the government is serious about spreading radio to D category towns, it will have to address all these costs. Without a big cost rationalization, bidders will find it unviable to bid. Some necessary amendments needed in the policy are:

(a) Lower specs: Very low minimum transmission power (maybe capped at 1 KW ERP for all), very low minimum height for the transmission tower (maybe just 15 meters). Let broadcasters decide what is best.

(b) Remove all content restrictions: Allow unfettered access to content other than music. As mentioned above, music labels often do not adhere to the 2% rule. In such cases, broadcasters must be able to run alternate content including local news and current affairs, talk shows etc.

(c) Lower government levies: No annual license fees, no WOL fees, much lower Prasar Bharati fees if their facilities are used and no other government levies.

(d) Full networking should be permitted, even between different broadcasters (present policy limits it to within a broadcaster's stations). Brand name sharing should be permitted between different broadcasters. For a small broadcaster, this will help acquire content from a bigger network and keep programming costs in check.

(e) Too restrictive M&A rules: The rules that govern M&A in Phase-3 policy make it extremely difficult for radio broadcasters to avail of them. When M&A cannot happen easily, it discourages potential bidders who worry that they may not have an exit available in the future. This affects interest in the auction process.

For example, the government is currently objecting to "slump sale" of the radio business from one company to another even after the lock-in

period. It allows sale only through “transfer of shares”. For sellers that operate multiple business units under the license holding company (say TV or print etc in addition to radio), it is not possible to transfer shares to a buyer who is interested only in buying the radio business.

Then there are artificial city and national caps which make M&A difficult. Except for the top 13 cities (A+ and A categories), multiple licenses are not permitted in any other city. How do two networks that have some common B, C and D category cities merge then? These rules are completely unnecessary considering that there are no such restrictions in other media businesses. If there are restrictions, then those are imposed by the Competition Act, 2002, which apply to radio companies as well.

(f) Not allowing news and current affairs: Bidders fret that the policy does not permit broadcasters to do news and current affairs. This affects business viability. One of the most popular places where radio is consumed is in transit, either in cars or public transport. If news and current affairs were freely permitted to radio broadcasters, as permitted everywhere in the world, then it would help in increasing listenership in transit and building stickiness to the medium (time spent). This would lead to higher advertising revenues and more OTEF for the government.

(g) In small C and D category towns in particular, the need for news and current affairs is even higher. The famous “chai pe charchas” or world-renowned Bengal “addas” or the omnipresent “ketlis” in Gujarat are an essential part of small towns. What is transacted in these places is news and current affairs in any and every form. Sadly, radio, which is the most local of all media, is denied the right to participate in this. There are no restrictions on newspapers or local cable.

(h) Many arguments have been given against denial of news to radio. India prescribes no restrictions on news on any other medium, except for FDI caps. The same FDI caps already apply to radio. There is no pre-censorship imposed on any medium. There are self-governing content

regulating mechanisms in every medium. Radio broadcasters should be allowed the same rights that other media verticals are allowed.

11. We can now start answering the questions raised by TRAI:

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.

12. We totally disagree with the methodology used by TRAI in 2015. The methodology has been a complete failure as clear from the failure of Batch-2 auctions.

13. As argued earlier, our recommendation is that TRAI must estimate newspaper revenues in each city and then fix reserve fees. That data is available. If TRAI were to ask media owners to share the information confidentially, they would probably do so. If media owners are reluctant to share the data, then TRAI can still get reasonably accurate estimates from media owners or from its own groundwork.

14. We will now provide detailed objections to the formula used by TRAI in 2015. We will also provide specific suggestions for fixing reserve fees.

15. **First**, TRAI uses state level macro-economic data to auction city level licenses because in TRAI's own words¹:

".....the Gross District Domestic Product (GDDP) of that particular district could be used as a proxy indicator of the level of economic activity for that city/ region. However, GDDP data for FY 2011-12 for all States and UTs is not available. The closest variable for measuring the level of economic activity in a particular city/ region could be the GSDP. Therefore, per capita GSDP of a State is taken as a proxy indicator for assessing the level of economic activity and, hence, the revenue generation potential in that State."

¹ https://main.trai.gov.in/sites/default/files/Rec-FM-P-III_RP-24032015.pdf, Page 9, Point 2.17

16. Why should private industry bear the brunt of lack of GDDP data? Why couldn't proxies like service tax or excise duty or income tax generated that can be captured at a district level be used as an economic indicator. The GSDP is too blunt a tool - for a state's GSDP is influenced strongly by the economic activity in the capital of the state.
17. For example, Maharashtra's GSDP is influenced strongly by Mumbai or Pune, or Karnataka's by Bangalore. The smaller towns have nothing to do with GSDP calculated by including the big metros. Further, the capital city in each state has a different weightage in the performance of the whole state. In Gujarat, the capital Gandhinagar (+Ahmedabad) has a smaller weight compared to in Karnataka, where Bangalore has a much higher weight.
18. TRAI seems to be using the telecom centric approach, forgetting that in a telecom, the auction is for an entire state and not a small town. More importantly, for the FM radio industry that generates a mere ~ Rs 2,400 crores or so annually, does it make sense to have reserve fee formula based on macro-economic variables? These are perhaps more valid for the telecom industry that generates nearly Rs. 2,40,000 crores i.e. 100 times bigger than FM radio?
19. **Second**, conflating listenership potential with propensity to listen is wrong. The methodology overestimates the listenership by making the mistake of believing that "potential to listen" (using access to the device, usually a mobile phone, as an indication of potential) is equal to actual listening. There are more than 1 billion mobile phones, but weekly radio listenership is only about 120 million (as per MRUC's research called IRS).
20. TRAI could have used 3rd party data on actual listenership from IRS. Even though IRS does not give listenership data for all towns, it does give for as many as 95 cities. It also gives listenership data for "rest of state". This data for rest of state could be used to estimate the penetration of radio in D category towns which are not directly reported by IRS. Alternatively, the listenership data for nearby cities reported by IRS can be used for estimating listenership of small towns. For example, the listenership data of Jalandhar, covered under IRS, can be used for estimating Ludhiana's listenership.

21. **Third**, it uses Gross Revenue per capita, Revenue of all stations in a state divided by the state's population, to arrive at estimated revenue potential. This completely ignores the contribution of state capital and more importantly ignores the work done in the past by earlier broadcasters in establishing a listenership habit and building a business for radio. Using this tool to expect that the revenue will flow into a newly auctioned city from day 1 is completely out of whack with market reality.
22. All this results in absurdities like a new category C town like Gulbarga in Karnataka – with no history of FM radio there – having a reserve price of Rs 1.50 crores with 3 channels up for auctions and receiving not a single bid while another Category C town like Guwahati in Assam – which had FM radio for several years – having a reserve price of ~ Rs. 38 lacs and only one channel available for auction going for final bid price of Rs 4.1 crores.
23. Simply because Karnataka's GSDP is higher than Assam's and the Gross Revenue per capita is also higher thanks to the presence of 9-10 stations in a buzzing market like Bangalore, ascribing a higher reserve fee to Gulbarga makes little sense.

24. **Suggestions for fixing Reserve Fee**

(a) As mentioned earlier, use newspaper revenue data for fixing reserve fee in each market. Assuming radio = 10% of newspaper revenues, and ability to amortize OTEF at 10% of radio revenues, the viability of a radio business will come if final license fees are around 1% of newspaper revenues. This means that reserve fees should be 0.25% of newspaper revenues, to attract more bidders and provide room for bidding to take prices up.

(b) If newspaper data is difficult to acquire in some cities, then make reserve fees zero in that city. Market forces will anyway ensure that the final license fee rises to the point that it is fair for the city.

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.

25. There is only 1 Category A+ city, Kolkata, and only 6 Category B cities in Batch-3. The fact that the B category cities couldn't get adequate number of bids in the past

shows that the reserve fee was already too high. Rather than adding inflation to the earlier reserve fees, TRAI should use one of the two formulas recommended above to reduce the reserve fees.

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.

26. Answered in Q1 – We totally disagree with the basic construct of TRAI’s formula. Instead, newspaper advertising revenues should be used as the basis for estimating the reserve fees for each town.

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

27. Answered in Q1 IRS gives city-wise estimates for 95 cities. It also gives listenership data for “rest of state”. For C and D category towns that are not part of the list of 95 towns reported by IRS, the best data to use could be the rest-of-state data because it would fairly represent smaller towns. Alternatively, listenership data of a nearby city covered by IRS can be used to estimate listenership of a city coming up for bidding. For example, Ludhiana’s listenership can be estimated from Jalandhar’s, which is covered by IRS.

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.

28. As mentioned earlier, TRAI’s 2015 formula should be totally rejected. Successful bids of Batch-1 and Batch-2 auctions should be ignored. Reserve fee should be set using either of the two formulas recommended in Q1 above. Once the final license fees are determined post-auctions, the same license fee should be applied to the

incumbents, provided the final bid is lower than what the incumbents have already paid in Batches 1 and 2. Incumbents should be given the benefit of the lower fee to bring them on par with the new bidders. TRAI and the Government should not look at this as a revenue loss, but as correcting an anomaly that got created because of the flaws of the past. One way to pass on the benefit to incumbents could be by extending the license period by a certain number of years.

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

29. We disagree with the formula itself, hence the 0.8 factor is irrelevant. We reiterate that TRAI should use one of the two alternative methods suggested in Q1 above. Even theoretically, the factor of 0.8 makes little sense because it gives very little room for auctions to take place. The factor should be no more than 0.25 so that more bidders are attracted to the auctions and to provide room for auctions to take place.

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.

30. We have mentioned in our earlier submission to TRAI on digital transmission that we support the move to digital transmission. However, we feel that it is the government's job to build the right ecosystem for digital transmission to be rolled out. Till that happens, Government cannot expect private broadcasters to take on any financial burden.

31. Therefore, Government should encourage all FM broadcasters to simulcast their content on digital format as well. Government should not charge anything (no additional OTEF) for digital transmission. In fact, the government should reimburse FM broadcasters for all costs incurred towards the provision of digital transmission services for the first 10 years or so.

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.

32. Answered in Q7

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

33. TRAI should remind itself of the objectives of the Government's radio policy. That of spreading the coverage of FM radio nationwide. It should ensure that 100% of licenses offered (or as high as possible) are auctioned off successfully. This should be its singular goal. How much money the government makes in the process is incidental as TRAI has itself noted in this consultation paper.

34. TRAI should weigh on the government to amend the Phase-3 policy and remove the flaws that exist. These have been highlighted in the beginning of the note. This would mean that the Government should first announce a Phase-4 policy and only then conduct auctions. If the flaws are not removed, then future auctions are likely to be even bigger failures than Batch-2 was.

35. TRAI must recommend that reserve fees must be made zero or reduced drastically as recommended in the reply to Q1. It should not worry that licenses will go away for "cheap". In any case, revenue generation or revenue maximization is NOT the objective of the government. TRAI should also have faith that market competition will ensure that final license fees as determined by the auction process are fair and reflective of the actual potential of the market. This in turn will ensure that more programming options are made available to consumers and their interests better served.

36. TRAI must also recommend the Up-down auction methodology, which is a minor variation of the method used in Phase-3 so far. This will ensure that 100% of licenses (or a very high number) of licenses are successfully auctioned off.

37. TRAI should not push digital transmission too much because the world has moved ahead and gone towards internet streaming. If digital transmission is permitted, it should be for free and given as an option to all FM broadcasters.