

MODEMS: Declining Profit Margins

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The communication needs of enterprises have grown to include access to e-mails and corporate applications, as well as personal communication, online transactions and entertainment. The rapid growth in travel and the need to stay in touch with customers, vendors and business partners 24/7 has made Internet a preferred medium of communication which consequently provides an impetus to the Indian modems market.

Market Dynamics

The Indian modem industry did not fare too well in the last fiscal. It witnessed a decline from Rs. 400 crore in 2007-08 to Rs. 350 crore in 2008-09. However, the modems market picked up in 2009-10 and was pegged at Rs. 375 crore. The market size includes only wired modems.

The market is dominated by Atrie followed by Beetel (formerly Bharti Teletech) and D-Link. Atrie has 52 percent of the market share with sales touching Rs. 195 crore. Major customer acquisitions of Atrie include Jharkhand, West Bengal, Andhra Pradesh, Madhya Pradesh, Assam, and Gujarat SWANs. Maharashtra and UP ride on an NIC backbone. Next year these states would be expanding horizontally and vertically. Beetel (formerly Bharti Teletech) captures 21 percent of the market with sales of 80 crore. Other players in the industry include Apache, Artek enterprise, Dax Networks, Gemini Communications, Huawei, Linkquest Telecom, Multi-Tech, Nomus Comm-Systems, Sterlite Technologies, and Team Engineers.

In the home market and SME, the move is towards ADSL, away from the dial up modems. While in the organized sector, the move is from the 64kbps leased line to 2 Mbps leased lines. This shift is also driven by the reduction in tariff and easy availability of high speed leased lines from BSNL as well as other private service providers. Expansion of networks of large enterprises and organization like telcos, banks, railways, PSUs, and Government (E-Seva) contributes to the growth of Indian modem market. Broadband deployment is the other factor which will contribute significantly in the future.

The Indian modern market is seeing growth due to various factors, including increased Internet usage and thrust towards broadband. The government has huge plans for increasing broadband penetration. It has planned 20 million this year, of which it has already auctioned tenders for 8 million. Such initiatives will provide a thrust to the Indian modems market. However, 20 million broadband connections is feasible when service providers come up with best price offerings for the customers along with triple play or multiple services like Internet Bandwidth , IPTV , VoIP etc. offering with good customer support infrastructure. 3G will enable realization of this dream.

Technology Trends

The biggest innovation in the modem market is the low-cost chip sets which will drive growth in the dial-up, leased line, cable, DSL, and ADSL modem market. Leased lines followed by DSL and ADSL modems will show substantial growth in the future.

USB modems are the future growth drivers and will be offered with features like data storage, music and FM. Applications over the Internet (like VoIP and enterprise access) will fuel the growth of value-added services in the DSL segment.

Post 3G, wireless modems will dominate the market. Cellular modem technology will be on the list of wireless options of the customer base to achieve mobility. Telecom operators providing wireless broadband connections will start offering devices which can access net from their portable gadgets. Once HSPA networks become active in India, HSPA data cards should also make their entry into Indian markets.

An interesting trend will be the integration of technologies like wireless/firewall-VPN into ADSL. Service providers will start providing more value-added services.

Profit Margins-A Major Concern

Pricing remains an issue of concern for vendors as it is a high risk market and the profits are continuously declining. Price cuts seem to be a good idea from the end-customer point of view as the decline in the price of modems will ultimately benefit the end customer, but the critical parameters will continue to be product quality, reliability in performance, and introduction of environment friendly products. Vendors have to maintain an average selling price which may be higher than what customers perceive.

Future

Shrinking profit margins may spark off consolidation in the market. Experts believe that 2010-11 is going to be an year of consolidation for the industry. The industry will witness unprofitable players exiting the market and a few profitable players dominating the market.

With the completion of auction process, there will be massive investment in the domestic 3G deployments and the country will be able to reap the benefits of mobility by developing its telecom infrastructure for the propagation of next generation technology. The government's thrust on broadband and its regulations to mandate Internet speed at 256Kbps for broadband operators is promoting broadband which will further drive the modem market in India.

Experts Speak



Ravi Chandran
Managing Director,
Atrie Technology Pvt Ltd

"Modems have become a commodity"

Atrie achieved sales of Rs.173 crore in 2008-09 and is headed for Rs.195 crore in 2009-10. We maintain leadership in the DSL area in the APAC region which includes Taiwan, Indonesia, Thailand, Vietnam, Malaysia, China, and India and East Europe. Our major customers are service providers and enterprise such as banking. Going forward, we expect increase in customers from banking the sector where need for branch offices and ATM connectivity is driving growth.

Railways also contribute to our growth where there has been demand for unreserved ticketing terminals. Indian defence sectors, like the IAF, are one of our major customers. We expect a large demand in these sectors with the expansion of projects in Navy and Army scheduled for the next financial year. We had significant business coming from state-wide area networks on 2MB leased circuits. Our products have been deployed in the states of Jharkhand, West Bengal, Assam, and Gujarat in 2009-10.

Modems have become a commodity. Profit margins of vendors are declining. Current-customer consolidation is the plan for us. Globally, many manufacturing companies have diversified or perished, so customer consolidation is inevitable. Volumes will help in growing toward a very matured market for DSL.

This year Atrie has introduced the WiMAX-cpe outdoor, indoor and USB dongle and is actively involved interoperability test with base-station vendors and we see revenue growth from this business.