A BRIEF REPORT ON TELECOM SECTOR IN INDIA

January 2015

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1. INDUSTRY OVERVIEW

1.1 Introduction

The Indian telecommunications industry is one of the fastest growing in the world. Government policies and regulatory framework implemented by Telecom Regulatory Authority of India (TRAI) have provided a conducive environment for service providers. This has made the sector more competitive, while enhancing the accessibility of telecommunication services at affordable tariffs to the consumers. In the last two decades, the Indian Telecom Sector and mobile telephony in particular has caught the imagination of India by revolutionizing the way we communicate, share information; and through its staggering growth helped millions stay connected. This growth, however, has and continues to be at the cost of the Climate, powered by an unsustainable and inefficient model of energy generation and usage. Simultaneously, this growth has also come at significant and growing loss to the state exchequer, raising fundamental questions on the future business and operation model of the Telecom sector.

Telecommunication services are globally recognised as one of the driving forces for overall economic development in a nation. They are also one of the prime support services needed for rapid growth and modernisation of various sectors of the economy. The Government of India recognises this fact and hence, has taken several major initiatives to provide a business friendly environment for companies in this sector.

Driven by 3G and 4G services, it is expected that there will be huge machine-to-machine (M2M) growth in India in 2016-17, according to UST Global. There is also a lot of scope for growth of M2M services in the government’s ambitious US$ 1.1 billion Smart City program. The rapid strides in the telecom sector have been facilitated by liberal policies of the Government of India that provide easy market access for telecom equipment and a fair regulatory framework for offering telecom services at affordable prices. According to a study by GSMA, it has been expected that smartphones will account for two out of every three mobile connections globally by 2020 and India is all set to become the fourth largest smartphone market.

1.2 Current Scenario

In Indian telecom sector the number of telephone subscribers in India increased from 957.61 million at the end of September, 2014 to 962.63 million at the end of October, 2014, thereby showing a monthly growth rate of 0.52%. The urban subscription increased from 569.56 million at the end of September, 2014 to 570.58 million at the end of October, 2014 and the rural subscription increased from 388.05 million to 392.05 million during the same period. The monthly growth rates of urban and rural subscription were 0.18% and 1.03% respectively.
The overall Tele-density in India increased from 76.75 at the end of September, 2014 to 77.07 at the end of October, 2014. The Urban Tele-density increased from 148.07 to 148.10 and Rural Tele-density increased from 44.96 to 45.39 in the month of October 2014. The shares of urban subscribers and rural subscribers at the end of October, 2014 were 59.27% and 40.73% respectively.

Total wireless subscriber base increased from 930.20 million at the end of September, 2014 to 935.35 million at the end of October, 2014, thereby registering a monthly growth rate of 0.55%. Wireless subscription in urban areas increased from 547.70 million at the end of September, 2014 to 548.78 million at the end of October, 2014. The wireless subscription in rural areas increased from 382.50 million to 386.57 million during the same period. The monthly growth rates of urban and rural wireless subscription were 0.20% and 1.06% respectively.

The Wireless Tele-density in India increased from 74.55 at the end of September, 2014 to 74.89 at the end of October, 2014. The Urban Wireless Tele-density increased from 142.39 to 142.44 and Rural Wireless Tele-density increased from 44.32 to 44.76 in the month of October, 2014. The shares of urban and rural wireless subscribers were 58.67% and 41.33% respectively at the end of October, 2014.

India saw the fastest growth in new mobile-phone connections with 18 million net additions in the third quarter of 2014, according to a report by Swedish mobile network equipment maker Ericsson. The number of smart phones, which account for just 37 per cent of all mobile-phone subscriptions, will reach 2,700 million by 2014, and growing at 15 per cent compounded annual growth rate, will cross 6,100 by 2020. The falling cost of handsets, coupled with improved usability and increasing network coverage, are factors that are making mobile technology a popular phenomenon in the country. The broadband services user-base in India is expected to grow to 250 million connections by 2017, according to GSMA. It also expects to see increased mobile broadband penetration in India, with over 250 million on either 3G /4G by 2017.

Composition of telephone subscribers in India - The wireless segment (96.9 per cent of total telephone subscriptions) dominates the market, while the wireline segment accounts for the rest.
Composition of telephone subscribers in India

- Urban Wireless: 57%
- Rural Wireless: 40%
- Urban Wireline: 2%
- Rural Wireline: 1%
2. GROWTH IN TELECOM

Growth Drivers - Key Investments

With daily increasing subscriber base, there have been a lot of investments and developments in the sector. Some of the major developments in the recent past are:

- Bharti Infratel has planned to take over the telecom towers of Vodafone and Idea Cellular in India at a valuation of US$ 785.82 million. The company is also scouting for telecom tower acquisition opportunities in Sri Lanka and Bangladesh.
- Japanese telecom company SoftBank has planned to invest around US$ 10 billion in India’s IT sector over the next few years.
- Ericsson has won US$ 9.42 million three-year operations support systems (OSS) deal from Mukesh Ambani-headed Reliance Jio Infocomm, the only pan-India 4G licence holder in the country. Under the deal Ericsson will provide the telecom unit of Reliance Industries its service fulfilment software solutions comprising nine suites.
- Reliance Jio Infocomm Ltd has signed an agreement to share telecom towers of GTL Infrastructure Ltd. This is the seventh tower-sharing agreement that Reliance Jio has forged with telecom tower owners in India. This is the seventh tower-sharing agreement that Reliance Jio Infocomm has forged with telecom tower owners in India.
- ISUN is the latest Indian brand in mobile phones and tablet personal computers. The Chennai-based Exotic Global Trades Pvt Ltd launched its telecom products under the ISUN brand that will be bundled with various BSNL schemes.
- Reliance Jio Infocomm has planned to raise US$ 1.5 billion from more than two dozen overseas banks to refinance the loans taken in the year 2010. A total of 26 banks participated in the deal, including 15 mandated lead arrangementers and book runners (MLABs). India is the world's second-largest telecommunications market, with 933 million subscribers by the end of FY14. It stood third-highest in terms of total internet users in 2013, with 164.81 million internet subscriptions.

The Indian telecom sector's revenue grew by 13.4 per cent to touch US$ 64.1 billion in FY12. Wireless and wireline revenue increased at a compound annual growth rate (CAGR) of 10.4 per cent to reach US$ 39.1 billion over FY06-13. Revenues from the telecom equipment segment stood at US$ 23.5 billion in FY12 compared to US$ 23.4 billion in FY11. Increasing income has been a key determinant of demand growth in the telecommunication sector in India. The IMF forecasts income to expand at a CAGR of 5.7 per cent to US$ 1,869.3 during 2013-18. The Government of India plans to cut license fees by up to 33 per cent for operators that cover services for more than 95 per cent of the residential areas in a calling circle. The Department of Information Technology intends to set up over one million internet-enabled common service centres across India as per the National e-Governance Plan. The government has also revised the M&A guidelines for the telecom sector; it raised the limit on the market share of a merged
entity in a circle to 50 per cent from 35 per cent earlier. The mobile application (app) market is expected to expand at a CAGR of 70.4 per cent to US$ 100 billion during 2012-15. The segment's growth is expected to be driven by increasing mobile connections and availability of low-range smart phones.
3. MARKET PLAYERS

Key Players

As on 31st October, 2014, the private access service providers held 90.55% market share of the wireless subscribers whereas BSNL and MTNL, the two PSU access service providers, held only 9.45% market share. Wireline subscriber base declined from 27.41 million at the end of September, 2014 to 27.28 million at the end of October, 2014. Net reduction in the wireline subscriber base was 0.12 million at the monthly decline rate of 0.45%. The share of urban and rural subscribers in total wireline subscribers were 79.90% and 20.10% respectively at the end of October, 2014. The Overall Wireline Tele-density decreased from 2.20 in September, 2014 to 2.18 in October, 2014, with Urban Wireline Tele-density and Rural Wireline Tele-density being 5.66 and 0.64 respectively. BSNL and MTNL, the two PSU access service providers, held 76.06% of the wireline market share.

Wireless market share in terms of total subscribers in India - Bharti Airtel is the market leader, with a 22.7 per cent share of total subscription, followed by Vodafone (18.4 per cent share).
4. GOVERNMENT POLICY

4.1 Government Initiative

The government has fast-tracked reforms in the telecom sector and plans to clear the proposal allowing spectrum trading and sharing ahead of the year-end deadline as it wants to lift the business sentiment for the forthcoming airwave auction. Some of the other initiatives taken by the government are:

The department of telecommunications (DoT) has agreed to the defence ministry’s demands for a defence band and a so-called defence interest zone (DIZ). This move will free up 3G telecom spectrum for at least three new carriers. The Government of India has asked telecom firms to implement full mobile number portability by May 2015, a move that will enable subscribers to retain their numbers when they shift to other states or licensed service areas.

DoT has planned to frame a separate exit policy for the country’s telecom sector that will allow companies to leave the business without losing out on the value of the assets. The move is being seen as part of Government of India’s endeavour to make the country’s telecom sector investor-friendly and enhance the ease of doing business in India. The telecom department is examining a proposal from the National Manufacturing Competitiveness Council to float a US$ 1 billion government-sponsored fund to seed 'Made in India' technologies to boost local gear manufacturing. The proposed telecom manufacturing fund will infuse equity in start-ups promoted by technocrats and scientists of Indian origin on condition that product development and manufacturing happens in India.

Road Ahead

India will emerge as a leading player in the virtual world by having 700 million internet users of the 4.7 billion global users by 2025. With the government’s favorable regulation policies and 4G services hitting the market, rapid growth is expected in the Indian telecommunication sector in the next few years. Also, with developments in this sector, services such as security and surveillance, remote monitoring of ATM machines, home automation, traffic management, retail, logistics and grid energy could eventually facilitate optimization of resources.

4.2 Investment Policy

Foreign direct investment limit in telecom services is 74 per cent subject to the following conditions:

- This is applicable in case of Basic, Cellular, Unified Access Services, National/ International Long Distance, V-Sat, Public Mobile Radio Trunked Services (PMRTS), Global Mobile Personal Communications Services (GMPCS) and other value added Services
- Both direct and indirect foreign investment in the licensee company shall be counted for FDI ceiling. Foreign Investment shall include investment by Foreign Institutional Investors (FIIs),
Non-resident Indians (NRIs), Foreign Currency Convertible Bonds (FCCBs), American Depository Receipts (ADRs), Global Depository Receipts (GDRs) and convertible preference shares held by foreign entity. In any case, the 'Indian' shareholding will not be less than 26 per cent.

- FDI up to 49 per cent is on the automatic route and beyond that on the government route.
- FDI in the licensee company/Indian promoters/investment companies including their holding companies shall require approval of the Foreign Investment Promotion Board (FIPB) if it has a bearing on the overall ceiling of 74 per cent. While approving the investment proposals, FIPB shall take note that investment is not coming from countries of concern and/or unfriendly entities.
- The investment approval by FIPB shall envisage the conditionality that the Company would adhere to licence Agreement.
- FDI shall be subject to laws of India and not the laws of the foreign country/countries.