

## TELECOM INDUSTRY



### SECTOR OVERVIEW

India is the world's second-largest telecommunications market and has the third highest number of internet users in the world. The wireless segment (97.36 per cent of total telephone subscriptions) dominates the market. India has the world's second largest smartphone market and will have almost one Billion unique mobile subscribers by 2020.

The Indian Telecom Sector is expected to generate four Million direct and indirect jobs over the next five years according to estimates by Randstad India.

International Data Corporation (IDC) predicts India to overtake US as the second-largest smartphone market globally by 2017.

#### THE TELECOM MARKET SEGMENTS:

1. Mobile (Wireless) - comprises establishments operating and maintaining switching and transmission facilities to provide direct communications via airwaves.
2. Fixed-line (Wireline) - consists of companies that operate and maintain switching and transmission facilities to provide direct communications through landlines, microwave or a combination of landlines and satellite link-ups.

3. Internet Services- includes Internet Service Providers (ISPs) that offer broadband internet connections through consumer and corporate channels Mobile (wireless) Fixed-line (wireline) Internet services.

## REASON TO INVEST

- India's Telecommunications market is expected to experience further growth, fuelled by increased non-voice revenues and higher penetration in rural market. Tele-density (defined as the number of telephone connections for every hundred individuals) in India, increased from 17.9% in Financial Year (FY) 2007 to 83.36% in FY 2016.
- Telecom penetration in the nation's rural market is expected to increase to 70 per cent by 2017. The emergence of an affluent middle class is triggering demand for the mobile and internet segments.

## STATISTICS

- Indian Telecom Sector's revenue grew at a Compound Annual Growth Rate (CAGR) of 34.67% to USD 39.2 Billion in FY 2016 as compared to USD 19.6 Billion in FY 2006.
- Revenues from the Telecom equipment is estimated at USD 20 Billion in FY 2016, which is further expected to reach USD 30 Billion in FY 2020.

## FINANCIAL SUPPORT

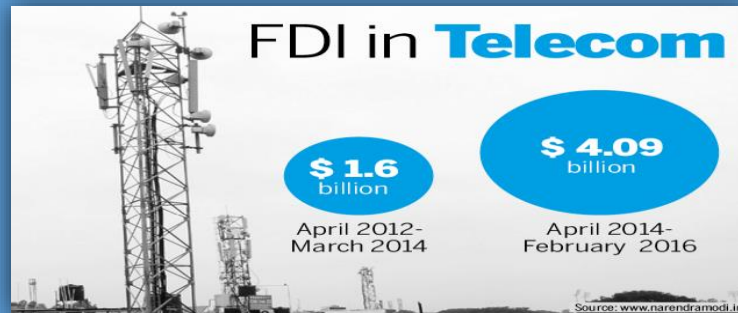
The Universal Service Obligation Fund (USOF) is expected to extend financial support to operators providing services in rural areas and encourage active infrastructure sharing among operators. In April 2015, Telecom Regulatory Authority of India (TRAI) recommended that Universal Service Obligation (USO) levy component to be reduced from 5 per cent to 3 per cent of annual revenues for all the licenses

## FOREIGN DIRECT INVESTMENT

### Foreign Direct Investment (FDI) Policy

- FDI of up to 100 per cent is permitted for infrastructure providers offering dark fibre, electronic mail and voice mail.
- FDI cap in the Telecom Sector has been increased to 100 per cent from 74 per cent; out of 100 per cent, 49 per cent will be done through automatic route and the rest will be done

through the FIPB approval route This is applicable in case of Basic, Cellular, Unified License (Access Services), National/ International Long Distance, Commercial V-Sat, Public Mobile Radio Trunked Services (PMRTS), Global Mobile Personal Communications Services (GMPCS), all types of ISP licenses, Voice Mail / Audiotex / UMS, Resale of IPLC, Mobile Number Portability Services, Infrastructure Provider Category – I (providing dark fibre, right of way, duct space, tower) except Other Service Providers.



#### Benefits of FDI in Indian Telecom Sector

1. Private participation has ensured that the best of services are provided to consumers at reasonable rates. Due to the increase in the number of telecom companies, the competition has enhanced consumer experience with the freedom of choice between these networks.
2. Private investment has also improved the allied Telecom infrastructure. This has ensured maximum connectivity to the general population with telecom connectivity reaching all corners of the country.
3. The Indian Telecom Sector is growing at a steady rate as more and more of the population becomes connected. The investment opportunities are immense since the subscriber base is showing healthy growth. Hence, for foreign investors, Indian Telecom Sector is a very attractive and promising one.

### MARKET SIZE

According to a report by leading research firm Market Research Store, the Indian telecommunication services market will likely grow by 10.3 per cent year-on-year to reach USD 103.9 Billion by 2020. Driven by strong adoption of data consumption on handheld devices, the total mobile services market revenue in India is expected to touch USD 37 Billion in 2017.

According to the Ericsson Mobility Report India, smartphone subscriptions in India is expected to increase four-fold to 810 Million users by 2021, while the total smartphone traffic is expected to grow seventeen-fold to 4.2 Exabytes (EB) per month by 2021.

According to a study by Global System for Mobile Association (GSMA), smartphones are expected to account for two out of every three mobile connections globally by 2020 making India the fourth largest smartphone market. India is expected to lead in the growth of smartphone adoption globally with an estimated net addition of 350 Million by year 2020. Broadband services user-base in India is expected to grow to 250 Million connections by 2017.

## GROWTH



### GREEN TELECOM

- The green telecom concept is aimed at reducing carbon footprint of the Telecom industry through lower energy consumption. Tata industries has invested around USD 16.38 Million to convert its 10,000 base stations from indoor to outdoor to reduce energy consumption and carbon footprint across its 20 telecom circles in India so far.

### EXPANSION TO RURAL MARKETS

- There are over 62,443 uncovered villages in India; these would be provided with village telephone facility with subsidy support from the Government's USO Fund (thereby increasing rural tele-density).
- In March 2016, the rural subscriber base accounted for 42.42 per cent of the total subscriber base, thereby fuelling growth across the Sector.

### INTERNET OF THINGS (IOT)

- IoT is the concept of electronically interconnected and integrated machines, which can help in gathering and sharing data. The Indian Government is planning to develop 100 smart city projects, where IoT would play a vital role in development of those cities.

## **TELECOM OF FINANCE COMMISSION**

- Department of Telecommunication is planning to issue a global tender for inviting applications for setting up a Telecom Finance Corporation (TFC), operational by March-April, 2017.

## **RISING INVESTMENT**

- Vodafone one of the leading players in the Telecom Sector in India, has disclosed its plans to invest USD 1310 Million to upgrade and expand Vodafone India network coverage and USD 655 Million to upgrade its technology Centre.
- In February 2017, Japanese Telecom company - Docomo, re-invested USD 1.18 Billion in Tata Telecom, to gather a stake of 26.5 per cent in the company.

## **OUTSOURCING NON-CORE ACTIVITIES**

- As part of the recent outsourcing trend, operators have outsourced functions such as network maintenance, IT operations and customer service.

## **MOBILE BANKING**

- Availability of affordable smartphones, along with a rise in the security level of mobile transactions, is expected to boost growth of transactions conducted via phones, with the overall transaction value being tripled in 2014.
- In May 2016, about 37 Lakh mobile banking transaction attempts were able to reach National Payments Corporation of India (NPCI's) platform.
- In March 2017, the Government set a target of achieving 25 Billion digital transactions for banks with the help of Point of Sale (PoS) machines, transactions enabled and merchants, which have been added in firms.

## **EMERGENCE OF TOWER INDUSTRY**

- A surge in the subscriber base has necessitated network expansion covering a wider area, thereby creating a need for significant investment in telecom infrastructure.
- To curb costs and focus on core operations, telecom companies have been segregating their tower assets into separate companies. For example: Reliance Communications has decided to finalise a deal to sell its stake in Reliance Infratel. The value of the deal is around USD3.68 Billion.

- Creating separate tower companies has helped telecom companies lower operating cost and improve capital structure; this has also provided an additional revenue stream Inspired by the success seen by Indian players in towers business, most of the operators around the world are replicating the model.
- To reduce the carbon footprint for telecom infrastructure, including mobile towers, on 1st January, 2017, TRAI, announced to bring consultation paper, that will review the issues related to carbon footprint.

## SECTOR POLICY



## REDUCTION IN LICENSE FEE

- In January 2015, the Government of India recommended reduction in license fees of telecom operators by 6 per cent, telecom operators currently pay 8 per cent of adjusted gross revenue as license fee.
- The issuance of several international and national long-distance licenses has created opportunities and attracted new companies into the market.

## INVESTMENT OPPORTUNITIES IN THE TELECOM SECTOR

- Enormous investment opportunities are going to be available in the manufacturing Sector of equipment and components. There are opportunities galore for export of telecom equipment and services from India. The DOT has taken a keen interest in developing export market for telecommunication equipment from India. The exportable telecom equipment have been identified as pagers, parts of pagers, transmission apparatus, rural automatic exchanges (RAX), telecom software, telecom modules, telephone instruments, EPAX/EPACX intercom, communication connector box and telecom chord.

- 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, as per a Microsoft report. The Government of India also plans to auction the 5G spectrum in bands like 3,300 MHz and 3,400 MHz to promote initiatives like Internet of Things (IoT), machine-to-machine communications, instant high definition video transfer as well as its Smart Cities initiative.

## INVESTMENTS



With daily increasing subscriber base, there have been a lot of investments and developments in the Sector. The industry has attracted FDI worth USD 23.92 Billion during the period April 2000 to December 2016, according to the data released by Department of Industrial Policy and Promotion (DIPP). Some of the major developments in the recent past are:

- Bharti Airtel will buy Telenor's India operations in seven circles to receive 43.5 megahertz (MHz) spectrum in the 1800 MHz band.
- Apple plans to produce iPhone SE at an upcoming facility in Bengaluru, owned by its partner Wistron.
- Ortel Communications, Odisha's largest multi-system operator, plans to invest around Rs 300 Crore (USD 45 Million) over the next two years, for upgrading its infrastructure, along with strengthening its reach, efficiency and competitiveness in the market.
- Reliance Communications Limited (RCom) has signed a binding agreement with Brookfield Infrastructure Partners to sell a 51 per cent stake in Reliance Infratel, RCom's tower unit, for Rs 11,000 Crore (USD 1.65 Billion).
- Private equity giant KKR & Co LP and pension giant Canada Pension Plan Investment Board (CPPIB) are in talks to acquire a significant stake in Bharti Infratel, which is expected at around USD 4 Billion.

- Chinese smartphone manufacturers, Oppo and Vivo, have both planned to invest in setting up large scale manufacturing capacity in the state of Uttar Pradesh in India, with an aggregate investment size of Rs 4,000 Crore (USD 600 Million).
- Samsung India has expanded its service network to over 6,000 talukas across 29 states and seven union territories in India, by introducing over 535 service vans equipped with engineers, key components, diesel generator (DG) sets and key equipment, for providing quick response and on-spot resolution.
- LeEco, a Chinese technology company, has entered into a partnership with Compal Technologies and invested USD 7 Million to set up manufacturing facility at Greater Noida in order to start manufacturing Le2 smartphones in India.
- Chinese telecom gear maker Huawei has set up its largest global service centre (GSC) at Bengaluru in India, with an initial investment of Rs 136 Crore (USD 20.4 Million), which will extend its support to Huawei's domestic and international telecom carrier customers in about 30 markets across Asia, Middle East and Africa.
- Chinese smartphone maker Gionee, which currently assembles smartphones in partnerships with contract manufacturers Foxconn and Dixon, plans to invest Rs 500 Crore (USD 75 Million) to set up a manufacturing facility in India.
- Singapore Telecommunications Limited (Singtel), the major shareholder in Bharti Airtel, announced that it has signed an agreement with its majority owner Temasek Holdings Private Limited to purchase a 7.39 per cent stake in Bharti Telecom Limited, the parent company of Bharti Airtel Limited, in a deal worth USD 659.51 Million.
- Axiata Digital, a subsidiary of Malaysia's largest telecom firm Axiata Group Berhad, has made its entry into Indian e-commerce market by investing Rs 100 Crores (USD 15 Million) in Bengaluru-based StoreKing.
- Chinese smartphone manufacturer OnePlus has partnered with Foxconn to start manufacturing its products in India as part of its plan to have 90 per cent of the devices sold in India to be locally manufactured by the end of 2017.
- Government of India to make a windfall gain from sale of spectrum in 2016-17 and achieve its fiscal deficit target of 3.5 per cent of GDP for the year.
- Vodacom SA, a subsidiary of Vodafone Plc, has entered into an agreement with Tata Communications Ltd to buy the fixed-line assets of TataComm's South African telecom subsidiary Neotel Pty Ltd.
- Reliance Communications Ltd, India's fourth largest mobile services provider, has agreed to acquire Sistema Shyam TeleServices Ltd (SSTL), the local unit of Russian company Sistema



JSFC, in a deal valued at Rs 4,500 Crore (USD 675 Million), which includes payments to the Government for spectrum allotted to Sistema.

- American Tower Corporation, a New York Stock Exchange-listed mobile infrastructure firm, has acquired 51 per cent stake in telecom tower company Viom Networks in a deal worth Rs 7,635 Crore (USD 1.14 Billion).
- Swedish telecom equipment maker Ericsson has announced the introduction of a new radio system in the Indian market, which will provide the necessary infrastructure required by mobile companies in order to provide Fifth-Generation (5G) services in future.
- In February 2017, Bharti Airtel announced its plans to acquire Norway based – Telenor, for a no cash deal by also taking over Telenor’s infrastructure and contracts for tower lease.
- In March 2017, Vodafone announced its merger with Idea Cellular to become India’s biggest telecom operator. The merger will result in a customer base of 400 Million, nearly 35 per cent market share.

## GOVERNMENT INITIATIVES

The Government has fast-tracked reforms in the Telecom Sector and continues to be proactive in providing room for growth for Telecom companies. Some of the other major initiatives taken by the Government are as follows:

- The Government of India has allocated Rs 10,000 Crore (USD 1.5 Billion) for rolling out optical fibre-based broadband network across 150,000 cumulative Gram Panchayats (GP) and Rs 3,000 Crore (USD 450 Million) for laying optical fibre cable (OFC) and procuring equipment for the Network For Spectrum (NFS) project in 2017-18.
- The Department of Telecommunications (DoT) has amended the Unified License for telecom operations which will allow sharing of active telecom infrastructure like antenna, feeder cable and transmission systems between operators, thereby lowering the costs of operations and leading to faster rollout of networks.
- The TRAI has recommended a Public-Private Partnership (PPP) model for BharatNet, the central Government’s ambitious project to set up a broadband network in rural India, and has also envisaged central and state Governments to become the main clients in this project.

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