

**As 5G networks roll out in India, what are the new areas of growth that they will bring in?**

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As 5G networks roll out across Indian cities, stakeholders in the country's vibrant telecom sector, the second largest in the world with a base of 1.17 billion wireless and wireline subscribers as of July 2022, prepare to tap into new areas for growth in a disruptive world. The wireline segment received a major boost from the Covid-19-induced lockdowns with an uptick in subscribers opting for wired broadband internet, shaped doubtless by the remote-work and remote-education paradigm. With cinema houses suspending shows, people turned to over-the-top (OTT) platforms for their daily dose of entertainment. However, the telecom sector struggled due to internecine competition, adverse judicial and government stands on spectrum pricing and adjusted gross revenue (AGR) disputes, and digital players building new businesses on 4G superhighways that eluded telcos.

The BT500 study period (October 2021 to September 2022) remained eventful for the sector since the Supreme Court's order on AGR dues in September 2020. The apex court granted a 10-year window to telcos for payment of AGR dues amounting to Rs 1.4 lakh crore. In September 2021, the government announced reforms to address the liquidity issue of the telcos, encourage investment and promote healthy competition. This included the opportunity to defer by four years the payment of AGR and related dues, and the option of paying interest on deferred obligations by converting into equity. Other interventions to improve telcos' processes and efficiencies were also announced.

"The government went ahead on its reforms commitment by addressing two major pain points for the sector: high royalty and spectrum availability," says Vivekanand Subbaraman, Research Analyst at Ambit Capital. Adds Rajashree Murkute, Senior Director of CareEdge Ratings: "Post

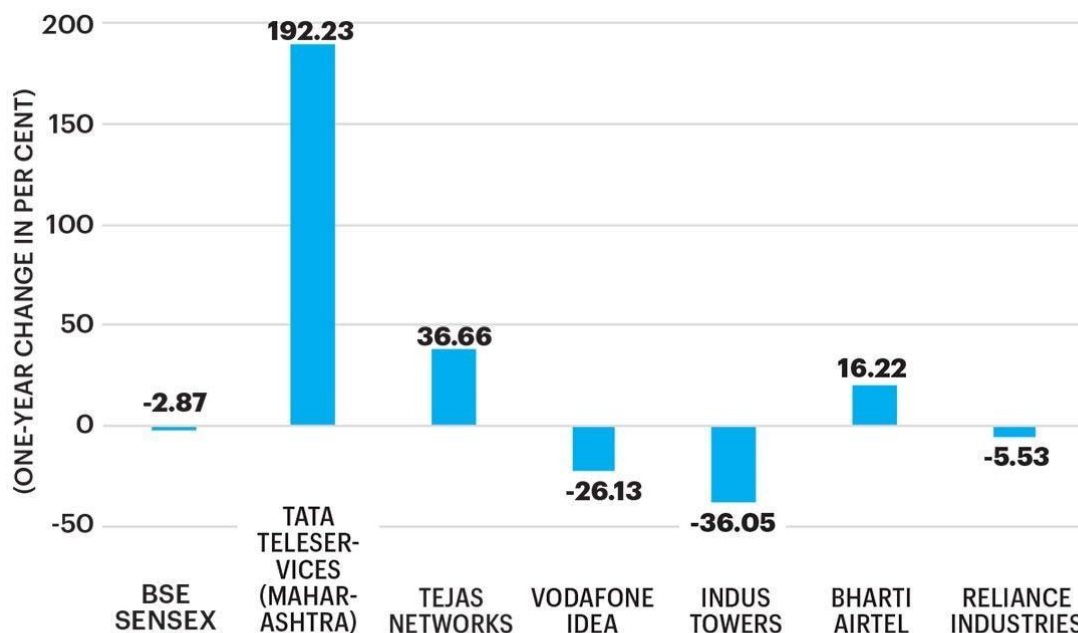
announcement of the reforms, the telcos undertook tariff hikes during November 2021, which aided in increasing their cash flows and supported their credit profiles.” However, the rise in tariffs resulted in telcos losing 7 million active subscribers in April 2022, the sharpest decline in recent times. An analysis by financial services firm Jefferies attributed this to a “SIM-consolidation amidst rising tariffs”. This has come as a blessing in disguise for market players Reliance Jio and Bharti Airtel, helping them to shed dormant and low-value customers.

Then, as Deepak Jasani, Head of Retail Research at HDFC Securities, points out, the reforms also brought several new areas into the ambit of telecom services, including OTT, internet-based and satellite-based communication services, besides in-flight, maritime, broadcasting, internet and broadband services.

This August, 5G auctions fetched a record Rs 1.5 lakh crore for the government. Reliance Jio emerged as the top buyer of airwaves, spending over Rs 88,000 crore and Bharti Airtel stood second with Rs 43,000 crore. The other two bidders, Vodafone Idea (Vi) and Adani Data Networks (ADN), bid for selective spectrum, with the latter planning to roll out a non-public network (NPN) to service its own businesses. Further, Indian telcos are expected to invest around \$19.5 billion in 5G infrastructure, per a report by the telecom industry think tank GSMA. The Big Three of Indian telecom, Reliance Jio, Bharti Airtel and Vodafone Idea, are getting ready to roll out commercial 5G services in India, with the first two having already launched beta services in select circles.

## MIXED SIGNALS

Although most telecom players have done well financially in the past year, the same has not reflected in their stock returns



DATA AS OF SEPTEMBER 30, 2022 **SOURCE** ACE EQUITY

## Looking Beyond

Infrastructure and equipment providers to the telecom industry also see immense growth ahead. Tata group company Tejas Networks, which manufactures equipment for building telecommunication networks, reported significant progress on home-grown 4G and 5G stack working with BSNL. It sees global opportunities emerging amid geopolitical realignments and growing cybersecurity concerns, motivating customers to diversify their sourcing base to reduce exposure to equipment from certain countries. "We believe we are well positioned to benefit from this trend. We will use our India success as a platform to scale up our international business by capitalising on the Tata brand strength and deep customer relationships of other Tata group companies with global telcos," says Sanjay Nayak, CEO and MD of Tejas.

The company is also looking at expanding in 4G and 5G wireless technologies and building upon its existing optical networking base. Furthermore, the acquisition of Saankhya Labs, a wireless communication solutions firm, has allowed Tejas to expand its competencies in related high-growth segments such as 5G O-RAN, 5G direct-to-mobile broadcast and satellite-IoT as well as semiconductor chip design. "We believe we will have a very comprehensive portfolio of end-to-end telecom products, in-house expertise on software, hardware as well as chip design," says Nayak.

The enterprise business is likely to be dominant in the 5G scheme of things. "As 5G finds use cases majorly in IoT (Internet of Things), gaming, cloud computing, logistics, automobile and healthcare industries, the telcos are expected to increase focus on the enterprise business," says Murkute. "Major use of 5G is expected to be seen in the gaming industry and for increasing connectivity and efficiency of processes through automation."

## THE CONNECTED CLUB

Despite low ARPU and huge spectrum charges, most telcos have done well financially in the past year

Company	Rank 2022/ 2021	Average m-cap*	Total income	Profit after tax	ROE	TTM P/E multiple
▶ Reliance Industries	1/1	₹17,00,946.31 crore (20.76)	₹7,14,909.00 crore (47.69)	₹67,565.00 crore (26.95)	9.39%	26.57
▶ Bharti Airtel	10/11	₹4,18,493.76 crore (40.16)	₹1,17,081.20 crore (15.63)	₹5,882.00 crore (N/A)	9.39%	74.36
▶ Indus Towers	80/69	₹62,954.21 crore (2.27)	₹28,292.70 crore (96.52)	₹6,373.10 crore (118.80)	33.53%	10.87
▶ Vodafone Idea	158/147	₹31,318.69 crore (15.03)	₹38,630.90 crore (-8.81)	-₹28,246.60 crore (N/A)	NA	NA
▶ Tata Teleservices (Maharashtra)	191/468	₹25,251.78 crore (551.44)	₹1,110.72 crore (4.02)	-₹1,215.00 crore (N/A)	NA	NA
▶ Tejas Networks	444/638	₹6,218.93 crore (234.77)	₹593.89 crore (7.40)	-₹62.71 crore (-267.05)	-4.72%	NA

N/A: NOT APPLICABLE AS YOY FIGURES ARE NOT COMPARABLE; NA: NOT AVAILABLE; \*AVERAGE MARKET CAP IS FROM OCTOBER 1, 2021, TO SEPTEMBER 30, 2022; TOTAL INCOME, PAT AND ROE FOR FY22; TTM: TRAILING 12 MONTHS; P/E MULTIPLE AS OF NOVEMBER 7, 2022; FIGURES IN BRACKETS ARE PERCENTAGE CHANGE YOY; RESULTS ARE ON CONSOLIDATED BASIS (STANDALONE IN CASES WHERE CONSOLIDATED DATA IS NOT DECLARED) SOURCE ACE EQUITY

Harjit Singh, CEO of Tata Teleservices, which offers voice, data, cloud and managed solutions, plus allied services such as collaboration, security, and software-as-a-service (SaaS), points out how both digital native companies as well as large businesses with legacy technology have been aligning their customer-focussed models with artificial intelligence (AI), machine learning (ML) and data analytics along with cloud infrastructure to serve as the backbone for all transformational technologies. "We are amongst the first companies in the enterprise segment

to launch solutions and offerings with a key focus towards the small- and mid-sized business segment in India," he says.

However, some companies are struggling. Tata Communications, a provider of communication, mobility, connected solutions, network and data centre services, saw its revenue momentum hurt by global macro events. And Vodafone Idea and mobile tower installation company Indus Towers continue to scramble for funds. "High balance sheet debt due to 5G investments, a continuation of poor return on capital employed (ROCE) as tariffs are still too low and poor funding position are hurting Vodafone Idea and Indus Towers," says Ambit Capital's Subbaraman. Cautions HDFC's Jasani: "High payouts for spectrum auction and capex for setting up 5G telecom towers could strain the cash flows of the telecom companies unless there is a commensurate increase in subscriber base and usage, and increase in tariffs."

While the telcos' stand on the tariff for 5G services remains ambivalent, tariff hikes in the coming nine to 12 months seem imminent due to the prevalent low average revenue per user (ARPU) and increasing capex requirements for 5G. "The announcement of reforms has also paved the way for a conducive investment environment and thus raising capital is likely to be less challenging than before. The telecom tower companies are also witnessing increased interest from private equity players, which is likely to facilitate capex roll-out," states Murkute. In CareEdge Ratings' opinion, the key elements of medium-term growth strategy will encompass a mix of tariff hikes, increased capex outgo by telcos as well as sub-sector companies, larger focus on expanding the enterprise business segment with diversified clientele, and a target of higher rural coverage.

Financially resourceful operators may also closely explore options in the satellite communications segment. Already, Elon Musk-founded SpaceX's Starlink has applied for a Global Mobile Personal Communications by Satellite Services (GMPCS) licence with DoT. Bharti Enterprises-backed OneWeb, Reliance Jio Infocomm, Tata group's Nelco, Canada's Telesat and Amazon are also looking to offer GMPCS services in the country's potentially \$13-billion worth broadband-from-space market.