

## Indian Telecom Wireless Industry – Can the glory ring back?

Telecom wireless sector in India is going through a turbulent phase after a fast track performance over almost a decade. The industry has become a victim of policy paralysis and intense competition. Today the sector is over-crowded with number of players in each circle being 3-4 times the global average. The sector has become an epicentre of uncertainty as some of the policy decisions kept on bleeding the players profusely. The new entrants were hit hard by the Supreme Court judgment in February 2012, cancelling 122 licenses issued in 2008, calling the licensing process as arbitrary and capricious. The new entrants and their foreign partners, millions of customers and other stakeholders are left clueless, probably in the most, uncertain times in the Indian Telecom industry.

In its earlier phase, Indian telecom wireless industry was one of the greatest success stories of post-liberalized India. Within less than two decades after inception, India has become home to second largest subscriber base in the world after China. Overall subscriber base grew at a CAGR of 50% in the last five years taking the teledensity in India from 18% in FY 2007 to 68% in FY 2011.

India telecom sector witnessed both GSM and CDMA technologies thriving together. After a glorious performance in the initial years, CDMA growth started tapering after 2008, taking CDMA subscriber base as a % of total from 30% in December 2006 to 12% in December 2011. It can be attributed partly to relatively expensive CDMA handsets with limited variety, cheaper tariff plans on GSM services due to increased competition etc. Going ahead most of the subscriber growth will come from GSM whereas CDMA's share in total subscriber will keep on reducing.

In spite of the grand success, Indian telecom story has its own anomalies. Though more than 2/3rd of Indian population resides in rural areas, in terms of subscribers, it contributes just 1/3rd of the total subscriber base, leading to a teledensity of 34% in rural areas. Urban areas are highly saturated with a teledensity of 157% on account of multiple connections and rising number of inactive subscribers. In the last few years, subscribers in rural areas have grown faster (CAGR of 70% over last 5 years) as compared to the urban areas (CAGR of 42%). According to Ms. Revati Kasture, Head - CARE Research, CARE Ltd, "In the next 2-3 years, rural areas will grow faster than the urban areas and will contribute ~60% of the net subscriber addition."

An unending price war in order to acquire new customers led to one of the lowest tariffs in the world. Average Revenue per User (ARPU) have declined at a CAGR of more than 20% over the last five years pulling down the revenue growth to single digits. CARE Research estimates that with the uncertainty

surrounding the cancellation of 122 licenses by the Supreme Court, the tariffs are expected to rise. This will result in ARPUs inching up marginally.

Telecom wireless sector in India has few bright spots in terms of Value Added Services (VAS) and 3G. With rock-bottom call rates in voice category, next round of growth is expected to come from data. Non-voice revenue as a proportion of total revenue, with a paltry share of 11% in India, as compared to 20%-30% in major Asian countries, is expected to double over next couple of years. Indian telecom players rolled out 3G services in the beginning of 2011 after spending Rs. 677 billion on the 3G auctions. Rising penetration of smartphones and India’s demographic advantage with 65% population below the age of 35 years, CARE Research expects that growth in 3G (after a sluggish start) and VAS will significantly help in boosting topline and operating profitability for the sector.

Reduced competition post the Supreme Court verdict, increased tariffs, higher contribution from 3G and VAS will accelerate the revenue growth in the telecom wireless sector in the near future and enhance the operating profitability of the sector.

Mr. D. R. Dogra, MD and CEO – CARE Ltd. says, “The biggest concern for telecom sector in the near future arises out of regulatory risks. Though recently government has clarified some of the policy measures on M&A, spectrum sharing, licenses fees etc, there are lot of unanswered questions on spectrum refarming, 3G roaming issue, spectrum trading, tax issues related to international M&As etc.”

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