

Report on indian telecom industry essay



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Contents Acronyms 2.

5G Between 2nd and 3rd Generation 2G Second Generation 3G Third Generation ADC Access Defecit Charge ARPU Average Revenue Per User AUSPI Association of Unified Service Provider of India BSNL Bharat Sanchar Nigam Limited CDMA Code Division Multiple Access COAI Cellular Operators Association of India DOT Department of Telecommunication DTSDepartment of Telecom Service EBITDA Earning Before Interest Tax Depreciation and Amortization FY Financial Year GSM Global System Mobile IDC Industrial design Centre ILD International Long Distance ILP Industrial liaison Program IPTV Internet Protocol Television ISP Internet Service Provider MPLS-VPN Multi-Protocal Label Switching-Virtual Private Network MTNL Mahanagar Telephone Nigam Limited NLD National Long Distance NPLC National Private Leased Circuits ROI Return on Investment RS Rupees TDSAT Telecom Dispute Settlement Appellate Tribunal TELECOM Telecommunication TRAI Telecom Regulatory Authority of India UK United Kingdom USA United States of America Viz Videlit (latin= namely) V-SAT Very Small Aperture Terminal VSNL Vidhesh San WIMAX Worldwide Intreroaterability for Microwave Access WLL Wireless in Local Loop Abstract Telecommunications industry is one of the fastest growing industries in India due to a variety of factors. It has been evident that fast movers manage to capture the larger share of the pie. RCOM, with the aim of riding the wave of change, is looking not only at the domestic but the international market. And with technological advantages it as the potential to achieve the Vision 2010 of operating in 50 countries. With the favourable external environment, and a strategic position in market, RCOM can not only overtake the market leader by entering GSM segment.

It is also favourable to enter the rural markets with the reduction in ADC.

Now is the time to take advantage of the expected future reforms and the Indian growth story to capitalize on the goodwill of the parent company and the existing infrastructure. Introduction 1. 1 Industry Definition

Telecommunications Services Sector – The GICS Telecommunications Sector contains “ companies that provide communications services primarily through a fixed-line, cellular, wireless, high bandwidth and/or fibre-optic cable network”.

1. 2 Scope of the report This report is limited in scope by the geography and industry segment. It is limited to India and covers telecommunication services segment. It is also limited to Reliance Communications (RCOM), which is a subsidiary of Reliance Communication Ventures Limited (RCoVL). However, the overall external environment’s effect has been analysed. 1.

3 Significance of Telecommunication Services The Indian telecom market has been displaying sustained high growth rates. Riding on expectations of overall high economic growth, consequent rising income levels, and the fast-evolving technology, it offers unprecedented opportunities. A combination of factors is driving growth in the telecom market, promising rich returns on investments. The other segments of Telecommunications industry revolve around Telecommunications Services and are almost dependent on it.

Industry Analysis 2.

1 Industry overview Indian telecom market comprises of three sub-markets (Exhibit 1). One of these is Telecommunications Services. The industry has come a long way since the time first phone was introduced in the country

(Exhibit 2). The market is divided into 23 circles and different operators operate in different circles – some are present in specific circles while some have a Pan-India presence (Exhibit 3). Although there are many sectors in the industry, more than fifty percent revenue is contributed by the wireless segment, as also it is the sector driving the growth and is the forerunner in technology advancement. 2.

2 Industry Structure 2.3 Policy, law and regulation Regulatory participants: ? Ministry of Communication & Information Technology ? Department of Telecommunication (DoT) ? Telecom Regulatory Authority of India (TRAI) ? Telecom Dispute Settlement Appellate Tribunal (TDSAT) The policy and regulatory environment is favourable for competition and investment. It has been realised that independent regulation is the key factor for growth and the policy reforms reflect that. In 1999, the Government of India authored a very forward looking National Telecom Policy 1999 (NTP-1999), which acknowledged that access to telecommunications is of utmost importance for the achievement of the country's social and economic goals. Availability of affordable and effective communication for the citizens was the core vision and goal of this telecom policy. Reforms in Indian Telecom Sector Pre-1994 1994-1999 1999-2002 2002 onwards ? MTNL – Mumbai and Delhi; DTS elsewhere ? No mobile service ? NLD – DoT per/ BSNL ILD – VSNL? 4 private fixed service providers with less than 1% market share ? 2 GSM mobile players in each circle ? 13 players start mobile service ? Licenses converted to revenue sharing ? Private sector share less than 5% in revenue terms ? Competition in NLD and ILD ? Licenses on Revenue share ? 4 mobile operators / circle ? Calling Party Pays ? CDMA launch ? 3-6 operators in each

circle ? Intra-circle merger guidelines ? Unified Licensing •National Telecom Policy (NTP) 1994 TRAI constituted 1997•NTP 1999 •BSNL formed 2001 •Internet Telephony 2002 •FDI – 49 %•Broadband policy 2004 •FDI – 74% 2005 National Telecom Policy, 1994New Telecom Policy, 1999Unified Licensing Regime Since the announcement of the policy, Government has undertaken various concrete steps to achieve the policy objectives.

The migration from a fixed to a revenue share licence regime provided the desired relief to the private operators – earlier burdened by huge debts that they had to service due to their licence fee commitments. This was the starting point of the cellular revolution being witnessed in the country today, wherein almost 2 million lines are getting added to the network every month. Liberalisation of the national and international long distance sectors (NLD and ILD) by the Government led to the setting up of private companies in both service segments, and the consequent competition that has emerged has led to reduction in tariffs, which are lower than 80 per cent of the pre-liberalisation days. The reduced tariffs are now almost at par with world benchmarks. Recognising the convergence of markets and technologies, the Government, in December 2003, came out with the Unified Access Licence allowing both basic and cellular service providers to provide access, using any technology in a specified service area.

The Government also announced the Interconnection Usage Charge regime in January 2003, implemented from May 2003, to facilitate cost-oriented interconnection in the Indian telecom market with multiple operators – both public and private, with multiple service offerings. Reduction in Access Deficit Charges (ADC) in 2008 gives an advantage to the private players.

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Inactive infrastructure constitutes around 60% of the overall tower capex. Sharing towers help operators in not only reducing capital investment but also help facilitate faster network rollouts. It becomes all the more attractive when prospective target subscribers are from tier 2 & 3 towns, which are relatively low on ARPU .

2. 4 Macro-economic Environment Over the past 10 years, India has registered the fastest growth among major democracies, having grown at over 7 per cent in four years during the 1990s. It represents the fourth largest economy in terms of “ Purchasing Power Parity”. According to a recent Goldman Sachs report, over the next fifty years, Brazil, Russia, India and China – the BRIC economies – could become a much larger force in the world economy.

“ India could emerge as the world’s third largest economy and of these four countries; India has the potential to show the fastest growth over the next 30 to 50 years”. The report also states that, “ Rising incomes may also see these economies move through the ‘ sweet spot’ of growth for different kinds of products, as local spending patterns change. This could be an important determinant of demand and pricing patterns for a range of commodities”. The share of the services sector as a percentage of total GDP is also predicted to rise from the current 46 per cent to about 60 per cent by 2020. The boom in the services sector is slated to come from India, emerging as a chosen destination for software and other IT enabled services, tourism, etc. According to a Nasscom- McKinsey & Co.

Study, by 2008, the Indian IT software and services sector will account for US\$ 70-80 billion in revenues; employ 4 million people, and account for 7 per cent of India's GDP and 30 per cent of India's foreign exchange inflows. 2. 5 Demographics Population projections from the Planning Commission of India suggest that the share of the working age population (15-64 years) in total population will grow from the current 59 per cent to about 65 per cent, translating into 882 million by year 2020. [...] youth drives new telecom markets. The youth sector is always the driving force in new technology-cellular, paging, video games, instant messaging, i-mode in Japan, SMS in Europe" (" Telecom's latest threat: the demographic time bomb", Telecom Asia, April 2003, Alan Tumolillo) According to the Vision 2020 document of the Planning Commission of India, the country will witness continued urbanisation. The urban population is expected to rise from 28 per cent to 40 per cent of total population by 2020.

Future growth is likely to be concentrated in and around 60 to 70 large cities having a population of one million or more. This profile of concentrated urban population will facilitate customised telecom offerings from operators. Over the years, spending power has steadily increased in India. Between 1995 and 2002, nearly 100 million people became part of the consuming and rich classes. Over the next five years, 80 million people are expected to move into the consuming and very rich classes. On an average, 30-40 million people are joining the middle class every year, representing huge consumption spending in terms of the demand for mobile phones, televisions, scooters, cars, credit goods and a consumption pattern associated with rising incomes.

Low tele-density with high rate of growth in the number of subscribers is the most important driver of growth in the industry (Exhibit 3). 2. 6 Technological Impetus The technology evolution (Exhibit 4) has seen a slow start but the juggernaut is fast-catching speed. Supported by the reforms, this ball has started rolling. Moving towards 3G, with the ambitious target of high data transfer speeds and video telephony, the industry has seen the analog era (also called 1G).

The two spectrums are GSM and CDMA are used in India. Of the two, GSM is preferred by the users whereas CDMA is far behind in terms of subscriber base. GSM has 76. 7 % market share whereas CDMA has 23.

3 % (as on February 08, COAI, AUSPI) Although there are various advantages that GSM offers (Exhibit 5), CDMA is the more advanced version and has the capability of transferring voice as well as data at the same time. Average Revenue Per User: GSM: All India Average Revenue Per User (ARPU) declined by 7. 4 % from Rs. 297 to Rs. 275. Post-paid ARPU declined from Rs.

655 to Rs. 632, 3. 5 percent. Prepaid ARPU declined from 7.

2 %, from Rs. 248 to Rs. 230. CDMA: ARPU (prepaid+postpaid) at Rs. 173, down significantly from Rs. 206.

Lowest ARPU is in West Bengal (Rs. 127) while the highest blended ARPU is in Mumbai (Rs. 274) The industry today is driven by technology.

Advancement in technology is seeing India on the verge of entering the 3G spectrum although no licenses have been issued yet. The government is expected to auction 3G and WiMax spectrum in 2008.

The 3G auction will allow existing telecom operators to decongest their 2G networks by moving “ early adopters” on to 3G services, which should also trigger greater adoption of mobile value-added services (VAS) and improve operators’ ARPU. Some players are looking at offering WiMax services to their consumers. Technology is also driving other segments apart from wireless. For example, Satellite TV is acting as the cable killer, IPTV is feeding the customers seeking interactivity, and Mobile TV is expected to enable users to take TV on the move.

. 7 Industry Associations The Cellular Operators Association of India (COAI) was constituted in 1995 as a registered, non-profit, non-governmental society dedicated to the advancement of communication, particularly modern communication through Cellular Mobile Telephone Services. Members of COAI: (Exhibit 6). Association of Unified Telecom Service Providers of India (AUSPI) is the representative industry body of Unified Access Service Licensees providing telecom services in the country with CDMA technology. AUSPI is a registered society and works as a non-profit organization – Delivering the promise of improved Access, Coverage and Teledensity in India.

2. 8 Market Players For market players, market share, total number of subscribers and a brief description about them, see Exhibit 10. Reliance Communications 3. 1 Overview RCOM is a part of the Reliance Anil Dhirubhai Ambani Group. It is India’s largest integrated fully converged communications service provider in the private sector with an individual, enterprise and carrier customer base of over 30 million and also one of the

top two operators in the Indian wireless market. “ RCOM is one of the largest wealth creators with market capitalisation of over Rs.

1, 00, 000 crores with the largest capacity network in the country, the most future-ready integrated and converged network that can support even forthcoming 3G, 4G telephony and broadband services. More than half of the world’s population connects with each other on the Reliance Network. Every third call that comes in India is carried on Reliances Network. RCOM is the preferred network of over one million customers in USA, UK, Canada, Australia and New Zealand”, (“ RTIL Presentation”, www. com. in, 2007).

RCOM is an integrated telecom service provider with presence across wireless, fixedline, long distance voice, global data and domestic enterprise services markets. 3. 2 Business Segments Wireless: The company provides mobile and fixed wireless services on pan India basis and second largest player in wireless market with around 35m subscribers (as at the end of Aug ’07), which translates into 17. 3 % market share. Company competes with Bharti Airtel, BSNL, Hutchison Essar (Vodafone), Tata Tele services, Idea Cellular and several regional operators. Global: The business segment comprises of long distance voice (NLD, ILD & Calling cards) which is largely captive; and International bandwidth businesses (FLAG Telecom).

In FY07 company handled wholesale voice traffic (NLD/ILD) of 22. 5b minutes. Broadband: RCOM offers a broad portfolio of enterprise voice and data solutions, which range from NPLC, broadband Internet access, audio and video conferencing to MPLS-VPN, Centrex, and managed Internet data centre “ IDC”) services. It is felt that the wireless segment deserves more

concentration and importance because of its strategic importance, market growth and potential, and its contribution to the revenue. (Exhibit 7) RCOM has a 17.

3 % share in this market, second only to Bharti Airtel, but not far behind. (Market Share data: Exhibit 7) 3. 3 Integration To be an integrated telecommunication services provider is the direction of the company. This is also the direction where industry is headed. But not many players have realized the opportunity of providing the integrated services.

RCOM is making a strategic move – mainly through the acquisitions route – to develop competencies in all the segments to cater to the need of integrated services. RCOM acquired Yipes Communication (Yipes), an Ethernet service provider in 14 advanced metros of the US, in an all cash deal of US\$300m in Quarter2 FY08. Yipes currently caters to the high growth Ethernet market of the US through its 22, 000km optic fibre network. Its products range across financial, legal, healthcare & government verticals. RCOM is planning to rollout Yipes' products and services in Europe, Middle-East, Asia and India on Flag's global network.

This is likely to help address the approximately US\$25bn global Ethernet market by 2010. Yipes had a turnover of approximately US\$100m, with about 50% gross operating margin for FY07. 3. 4 RCOM versus Bharti (Exhibit 8, 9) RCOM ? RCOM has gained market share in 8 out of the last 12 months ? RCOM had a strong net addition rate in the last 4 months on the back of aggressive handset offering and greater network coverage ? RCOM also has an aggressive network coverage plan for the future. We expect RCOM to

sustain this net addition rate on the back of aggressive coverage and better customer offers. Bharti Bharti has gained market share in each of the last 12 months ? Bharti has consistently increased its network coverage & currently has the highest network coverage in the country at 63% ? Bharti added 2.

25mn subscribers in February 2008 to maintain its net addition rate above the 2mn mark. We expect Bharti to maintain a healthy net addition rate in the forthcoming months on account of increased coverage and attractive offers. 3. 5 Financial Performance (as on 31/03/07) Highlights ? Net Profit of Rs.

3, 163 crore, higher by 612% compared to Net Profit of Rs. 44 crore. Profits increased more than 6 times during the year ? EBITDA at Rs. 5, 720 crore, growth of 126%.

EBITDA margin expands to 40% from 24%, with continued expansion in profitability across all businesses – Personal, Global and Enterprise ?

Revenue growth of 34% at Rs. 14, 468 crore from Rs. 10, 766 crore ?

Shareholders Equity (Net Worth) increases to Rs. 22, 931 crore from Rs.

11, 742 crore – among the top three companies in India ? Conservative capital structure – Net Debt to Equity Ratio down to 8%, from 28% last year

The first telecom company in India to give 10% maiden dividend to reward shareholders ? Net profits crossed the Rs. 1000 crore mark in the fourth

quarter ended March 31, 2007 Segment Wise Wireless Business ? Revenues

increased by 46% to Rs. 10, 728 crore from Rs. 7, 364 crore. ? EBITDA

increased by 77. 1% to Rs.

3, 984 crore from Rs. 2, 250 crore. ? EBITDA margins expanded to 37% from 31%. Global Business ? EBITDA increased by 98% to Rs. 1, 271 crore from Rs. 641 crore.

? EBITDA margins increased to 24% from 12% last year. Broadband Business ? Revenue growth of 123% to Rs. 1, 144 crore. ? EBITDA increased by 574%, to Rs.

519 crore from Rs. 77 crore. ? EBITDA margin crossed 45% from 15% last year. 2008 The Group net worth and debt structure gives the company the capacity to borrow, on a conservative basis, over Rs. 1, 00, 000 crore.

Overall, the capital structuring initiatives have enabled the company to optimize capital structure, reduce the cost of resource base and provide access to funds that involve limited cash outflow over the next five years.

Total assets stand at over Rs 56, 000 crore ? Net worth is Rs 23, 000 crore ? Debt-leverage is negligible allowing to potentially borrow over Rs. 50, 000 crore to finance the growth plans, ? Cash flows in the 15-month period were over Rs 6, 000 crore. Deductions: Return on investment has increased from 6. 90 % in 2006 to 17.

70 %. But it has been observed that the investment made by RCOM is not in the towers because the towers subsidiary (RTIL) treats RCOM as an external party and provides it service. So, the increasing ROI really denotes increase in revenue per rupee of the investment made for that time period. Operating expenses do not increase in proportion with the sales. So, RCOM had excess service capacity which it started utilizing. 3.

6: Future Plans The company has recently stated its future plans in its quarterly results. “ For deployment of the world’s largest network expansion, RCOM has commenced the roll-out of the world’s largest and fastest network expansion program. Upon completion, the company will operate the single largest network in the world covering more than 900 million people in India across 23, 000 towns, 600, 000 villages, and almost 100 percent of all rail routes, national and state highways in the country, the network will take the connectivity to 60 countries across the world, representing over 80 per cent of global population and nearly 90 per cent of the global GDP. Upon completion of this project over the next 3 years, RCOM will be the world’s largest submarine network, with an aggregate length of over 115, 000 kms”.