

FDI in Indian Telecom Sector a Perspective (Telecommunication the Apple of Foreign Investor's Eye)

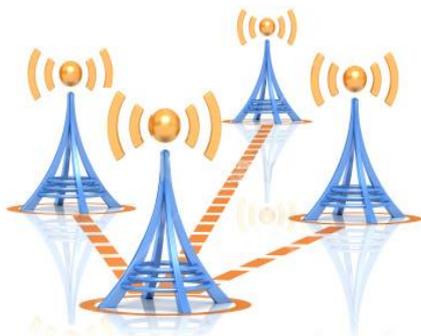
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Abstract :*The fast and steadily growing economy of India in majority of its sectors, has made India one of the most famous and popular destinations in the whole world, for Foreign Direct Investment. India's ever-expanding markets, liberalization of trade policies, development in technology and telecommunication, and loosening of diverse foreign investment restrictions, have further collectively made India, the apple of investors' eye, for most productive, profitable, and secure foreign investment. The Indian Telecommunications network is the third largest in the world and the second largest among the emerging economies of Asia. Today, it is the fastest growing market in the world. The telecommunication sector continued to register significant success during the year and has emerged as one of the key sectors responsible for India's resurgent India's economic growth. Foreign Direct Investment (FDI) appears to be bypassing the telecom sector, despite India being one of the most attractive and fastest growing telecom markets. This paper presents the status of FDI in Telecom Sector in India and the segment wise status of Telecom services, the competition overview and the major players in Telecom sector*

Keywords : FDI,Telecommunication, Wired & wirelessnetworks, GSM, CDMA

1.Introduction



Telecommunication means to transmit information over significant distances to communicate. As in earlier times visual signals such as smoke signals, beacons, semaphore etc or audio messages such as loud whistles, blow horns, drumbeats etc. In modern age of electronics,

telecommunication now include the use of electrical devices such as cellular phones, telephones, teleprinters and telegraphs, the use of radio and microwave communications as well as the use of orbiting satellites and internet. Telecommunication has emerged as a key driver of economic and social development in an increasingly knowledge intensive global scenario. The sector offers prime support services needed for rapid growth and modernization of various sectors of the economy. Telecommunication services in India are rapidly growing, connecting people at an expanding rate which parallels India's expansive population. With services becoming more readily available, the consumer demand for connection is at its highest. India with a user base of 120 million is the world's third largest internet market and is poised to have up to 370 million users by 2015.

As the fastest growing telecommunications market in the world, India is projected to have one billion telephones by 2015 and is estimated to become world's largest mobile phone market by subscriptions by 2013.

The Department of Telecommunications, under the Ministry of Communications and Information Technology, is the concerned authority for all matters relating to telecom. The department is responsible for formulating the developmental policies, granting licenses for various telecom services, promoting standardization, research and development as well as private investment in the sector.

Further, the introduction of national telecom policy (NTP) 2012 has accelerated equitable and inclusive economic growth by laying special focus on providing affordable and quality telecommunication services in rural and remote areas. The policy directs new initiatives, which includes free roaming, unrestricted net telephony and a new unified licensing regime for operators

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2.Economic Survey: FDI in telecom sector plunges by 96% to \$70.46 mn

The country's telecom sector has seen a sharp decline in foreign investor interest which was reflected in a sharp decline of Foreign Direct Investment in April-November 2012, the Economic Survey released today noted. FDI inflows plummeted 96% to \$70.46 million in April to November 2012 period. The sector had seen FDIs of \$1,987.18 million in the same period a year ago.



The cumulative Foreign Direct Investment in the sector from April 2000 to November 2012 period stood at \$12.62 billion. The sector also saw a decline in bank credit throughout the financial year 2011-12 from 17.77% to 15.21%, the Survey said.

With a marginal rise in bank credit share at 15.55% for the telecom sector in first quarter of FY 2012-13, credit to the industry further declined to 13.5% in third quarter.

The average bank credit for the sector was at Rs 930.43 crore throughout 2011-12 fiscal.

"This is further confirmation that telecom sector is in deep financial trouble and needs quick action from the government to get back on its feet. FDI is a critical source for the sector to make the needed investment in network," industry body COAI Director General Rajan Mathews said.

The survey, however, expects telecom sector to perform better following recent policy announcements. "...The recent announcement of reform measures at regular intervals including mild relaxation in the monetary and credit policy, sectors like retail, construction, and telecom are expected to perform better," the survey said.

Telecom was among leading sectors along with Tourism and Railways that have registered more growth compared to other sectors, it said. The survey said that telecom connections (wire and wireless) increased from 4,297.25 lakh in 2008-09 to 9,513.4 lakh in 2011-12.

"The data till 31st December, 2012 shows that 8,955.1 lakh connections have been provided," the survey said.

3.Current Scenario of Indian Telecom Industry



The Indian telecom sector has witnessed tremendous growth over the past decade.

Circle wise Overall Tele-density June	
All India	79.58
Assam	48.63
Bihar	48.16
Madhya Pradesh	55.55
J&K	57.71
UP	62.48
Odisha	65.87
North East	68.69
Rajasthan	74.19
Andhra Pradesh	81.39
West Bengal	81.35
Haryana	91.10
Gujarat	92.74
Maharashtra	96.97
Karnataka	98.49
Kerala	108.79
Punjab	109.71
Himachal Pradesh	112.70
Tamil Nadu	119.05
Delhi	238.60

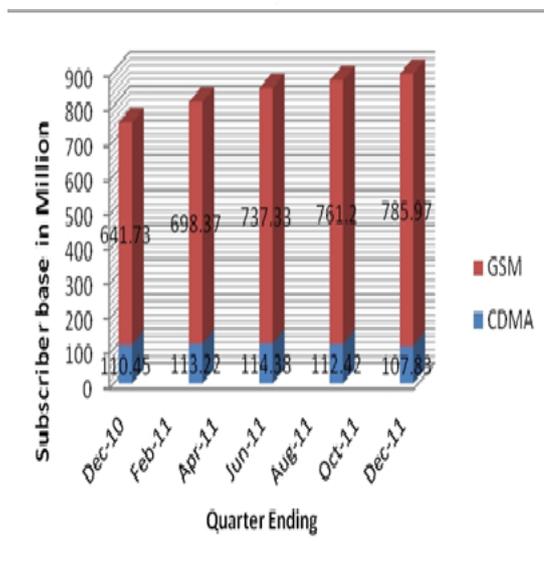
Today, the Indian telecom network is the second largest in the world after China. A liberal policy regime and involvement of the private sector have played an important role in transforming this sector. The total number of telephones has increased from 429.73 million on 31 March 2009 to 926.55 million on 31 December 2011

The telecom industry has witnessed significant growth in subscriber base over the last decade, with increasing network coverage and a competition-induced decline in tariffs acting as catalysts for the growth in subscriber base. The growth story and the potential have also served to attract newer players in the industry, with the result that the intensity of competition has kept increasing. Also, broadband segment has seen significant growth with total internet subscribers reaching 20.99 million in September 2011, which includes 13.30 broadband subscribers. Liberalization of the sector has not only led to rapid growth but also helped a great deal towards maximization of consumer benefits, evident from a huge fall in tariffs. Telecom sector has witnessed a continuous rising trend in the total number of telephone subscribers and hence the teledensity. In simple terms, 'Teledensity' is the number of landline in use for every 100 individuals living within an area. A

teledensity greater than 100 means there are more telephones than people. Third world countries may have a teledensity of less than 10. Teledensity is also an important indicator of telecom penetration in the country. Teledensity has increased from 18.2 per cent in March 2007 to 76.86 per cent in December 2011. Teledensity varies across circles and there is significant urban-rural divide. The wireless segment broadly classified into GSM and CDMA segments based on the underlying technology. The GSM segment holds the majority of subscribers with 785.97 million

at the end of Dec 2011. The remaining 107.88 million subscribers use CDMA based services. While the GSM segment is seeing a consistent increase in the number of subscribers, the CDMA segment is seeing a reduction. The CDMA wireless segment saw a decrease from 112.42 million at end of Sept 2011 to 107.88 million at the end of Dec 2011. In contrast the figures for GSM are 761.20 million and 785.97 million for Sept and Dec 2011 respectively.

Fig. 1 Overall Teledensity in India



The overall wireless market and consequently the GSM market is led by Bharti Airtel which held 19.62% at the end of Feb 2012. It is followed by Reliance Communications, which holds 16.68% of the market and also the leader in the CDMA segment. In the GSM segment, Vodafone and Idea closely follow Bharti Airtel while Tata and Sistema follow Reliance Communications in the CDMA segment.

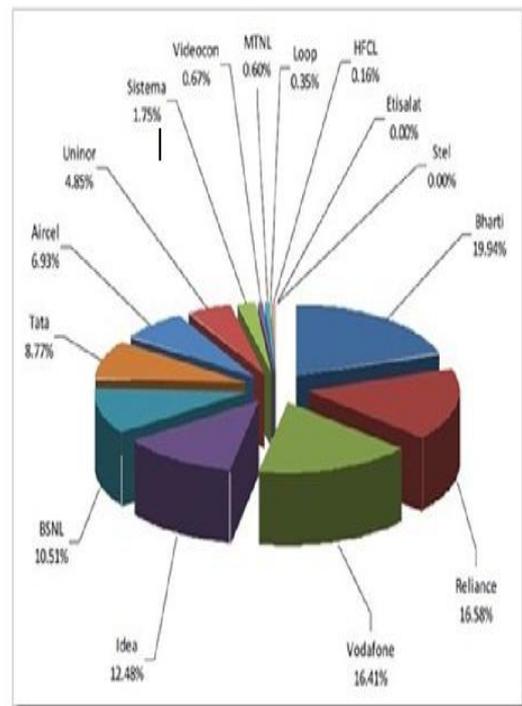
4. Key Market Players

With new players coming in, the intensity of competition in the industry has increased, especially over the last four years. The market share of telecom operators of the telecom companies reflects the fragmented nature of the industry, with as many as 15 players. As of April 30, 2012, Bharti telecom led the market with 19.94 per cent share, Reliance

(16.58 per cent), Vodafone (16.41 per cent), Idea (12.4 per cent), BSNL (10.51 per cent), Tata (8.77 per cent), Aircel (6.93 per cent), with the remaining share being held by other smaller operators

4. Telecom perator wise market share

Telecom Operator wise Market Share



Bharti is far ahead with close 20% market share in India, Reliance (16.58%) and Vodafone (16.41) are having a close battle. Reliance currently has 154 million subscribers as compared to 152.5 million of Vodafone. Uninor, who is one of the late entrants in Indian Telecom market now has over 45 million subscribers and accounts for close to 5 percent of Indian mobile market share .

5. Research & Development.

India has proven its dominance as a technology solution provider. Efforts are being continuously made to develop affordable technology for masses, as also comprehensive security infrastructure for telecom network. Research is on for the preparation of tested infrastructure for enabling interoperability in Next Generation Network. Pilot projects on the existing and emerging technologies have been undertaken including WiMax, 3G etc. Emphasis is being given to technologies having potential to improve rural connectivity. Also to beef up R&D infrastructure in the telecom sector and bridge the digital divide, cellular operators, top academic institutes and the Government of India together set up the Telecom Centres of Excellence

(COEs).

Seven Centres of Excellences in various field of Telecom have been set up with the support of Government and the participation of private/public telecom operators as sponsors, at the selected academic institutions of India.

The proposed benefits from the R&D initiatives by the Government are:

1. Pre-eminence of India as a technology solution provider.
2. Comprehensive security infrastructure for telecom network
3. Tested infrastructure for enabling interoperability in next generation Network.

To support Research & development in the country and promoting Start ups focused on technology and innovation, a weighted deduction of 150% of expenditure incurred on in-house R&D is introduced under the Income Tax Ac. In addition to the existing scheme for funding various R&D projects have been funded through new scheme like Support International Patent Protection in Electronics & IT (SIP-EIT),

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