

CHANGING SCNERIO OF THE INDIAN TELECOM INDUSTRY

*-Tushar Solanki
PGDM: 16115*

Since, the arrival of the juggernaut Jio led by India's richest man Mr. Mukesh Ambani, started its services in September 2016 offering free voice calls for lifetime also 3 months' worth of data (later extended until end-March, then end-June), one thing that was inevitable were mergers and acquisitions in the telecom industry.

The disruptive tariff plans brought by Reliance Jio, providing free voice calls and data plans have changed the current scenario of the Indian Telecom Industry. The speed at which Jio was able to get 100 million subscribers in less than three months and investing of USD 20 billion has created a spur in top Indian telecom service providers (Airtel, Vodafone, and Idea) have taken steps to beat the aggressive capturing by Jio.

This changing Scenario has led to a number acquisitions in the industry, the most publicized is the merger of Idea and Vodafone India, the valuation of this deal would be 23 Billion USD the biggest ever in the history of Indian telecom sector, the merged entity will be having almost 400 million total users with a market share of 35% and a 41% market share in revenue. The company's operating profit would be 24,400 crores and revenue would be of Rs81, 600 crore.

One the other hand Bharti Airtel is not sitting still, Bharti Airtel agreed to buy Tikona Digital Networks, also its broadband wireless access spectrum and 350 cellular sites which are in in 5 telecom circles, for around Rs1,600 crore, also Airtel will have Telenor unit's liabilities of lease obligations for phone towers and licence fees. The deal will not be involving cash payments to Telenor, also it would be giving Airtel 44 million customers, 43.4 megahertz (MHz) of spectrum in the 1,800MHz band and 20,000 base stations.

The other Big player Reliance Communication led by Anil Ambani and Aircel announced that they would merge their mobile network operations, Reliance Communication announced its merger with Sistema JSFC's Indian operation—MTS—through which Russian firm will hold a 10% stake in Reliance Communication. The entity will, carry a debt of Rs28, 000 crore. Aircel and Reliance Communication will each give half that amount into a debt pool.

With the decrease of Tariffs rates the consumption of data has also increase. The revenue of the telecom sector had declined in the 3rd quarter of financial year 2017 by 10.50%.



COST ADVANTAGE

	Bharti (with Telenor)	Idea	Vodafone	Combined Voda+Idea	Potential savings*
Network sites	185,000	132,000	141,000	273,000	220,000
Subscribers per site	1,730	1,443	1,452	1,448	1,796

*The Vodafone+Idea entity will need 20% lower network sites

Source: ICICI Securities

PEER PRESSURE

Pricing pressure, declining profitability and mounting debt levels forced telcos to merge and harness operational and financial synergies

Firms	Deal	Spectrum band
Bharti-Qualcomm	Acquisition	2300MHz
Bharti-Augere	Acquisition	2300MHz
Bharti-Aircel	Spectrum trading	2300MHz
Bharti-Videocon	Spectrum trading	1800MHz
RCom-RJio	Spectrum sharing/trading	800MHz

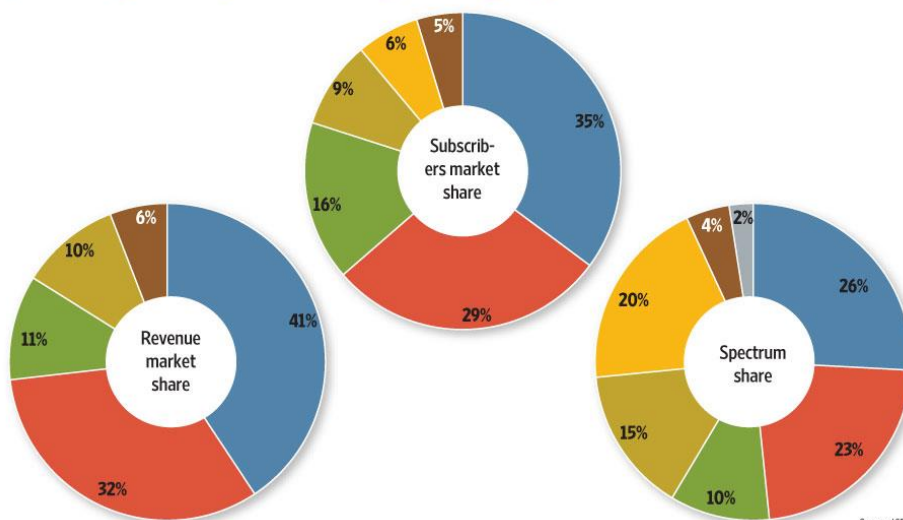


Firms	Deal	Spectrum band	Rationale
RCom-Sistema	Merger	800MHz	<ul style="list-style-type: none"> RCom strengthening its 800MHz spectrum holding for 4G Exit of Sistema as a telco
RCom-Aircel	Proposed merger	900MHz, 1800MHz	<ul style="list-style-type: none"> Combined entity to have a wider footprint in terms of spectrum holding Operational synergies
Vodafone-Idea	Proposed merger	Across bands	<ul style="list-style-type: none"> Combined entity to be the strongest in terms of subscriber as well as revenue market share Vodafone is strong in the metros, while Idea is strong in category A circles, to provide a synergetic alliance Q3 financials have been impacted owing to RJio's disruptive pricing
Bharti-Telenor	Acquisition	1800MHz	<ul style="list-style-type: none"> Bharti to strengthen its 1800MHz spectrum holding Contiguous spectrum Paves way for exit of Telenor from Indian markets

Source: ICRA

VODAFONE-IDEA MERGER TO CREATE A NEW NO. 1

■ Vodafone-Idea ■ Bharti Airtel ■ RCom- Aircel-Sistema ■ BSNL/MTNL ■ RJio ■ Tata ■ Others



Source: ICRA

The above Charts would mean that following the completion of the mergers (assuming that there will not be any regulatory hurdles), there would be three major telecommunication groups that will control over 80% market share and revenue of the Indian telecom sector.

The Vodafone-Idea combine will come in first place with a 35% market share, followed by Airtel's 29% (including Telenor) and Reliance Communication-Aircel-Sistema's 16%.

With the advent of Reliance Jio and its 4G services following are the impact on the Indian telecom sector and incumbent competitions:

1. Cheaper tariffs.
2. Better Infrastructure (The Tower Companies will be reaping benefits of the impact made by Jio in the telecom industry, which has resulted in the expansion of the telecom network.)
3. With Jio still having a weaker service network as compared to other top players, the merger between the top players would counter it by providing better services as a combined entity.
4. If the current trend continues we would be looking at a free voice calling regime.
5. Online streaming services will gain popularity, like Netflix etc.
6. Also, the competition between the network providers is in the 4G spectrum which has resulted in the sales of 4G Smart phones.