

The Changing Scenario Of The Indian Telecom Industry

Tushar Solanki

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The juggernaut Jio led by India's richest man Mr. Mukesh Ambani, started its services in September 2016, offering a lifetime of free voice calls and three months of free data (later extended until March 2017, and then prolonged until June). In the present context, Mergers and Acquisitions have become inevitable in India's hyper-competitive telecom industry.

The disruptive tariff plans brought by Reliance Jio have changed the current scenario of the Indian Telecom Industry. The aggression with which Jio went about signing over 100 million subscribers across the nation in less than three months; and investing a fortune of about 20 billion USD has created a spur in response to which - top Indian telecom service providers (Airtel, Vodafone, Idea) have taken steps to beat the aggressive capturing of the Telecom Market by Jio.

This changing Scenario has led to a number of acquisitions in the industry. The most publicized is the merger of Idea and Vodafone India, the valuation of which would be 23 Billion USD- the biggest ever in the history of Indian telecom sector! The combined entity will have almost 400 million customers with a 35% customer market share and a 41% revenue market share. It will have a revenue of Rs.81, 600 crores and an operating profit of Rs 24,400 crores.

On the other hand, Bharti Airtel is not sitting still and has agreed to buy the 4G business of Tikona Digital Networks Pvt Ltd., including its broadband wireless access spectrum and 350 cellular sites in five telecom circles, for around Rs1,600 crores. Also, Airtel will assume the Telenor Unit's liabilities related to license fees and lease obligations for phone towers. The transaction, which will not involve any cash payments to Telenor, will give Airtel access to 44 million customers (therefore increasing its user base to 307 million), 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 with Sistema JSFC's Indian operation—MTS—under which the Russian firm will hold a 10% stake in Reliance

Communication. The merged entity will, however, carry a debt of nearly Rs28,000 crores. Reliance Communication and Aircel will each contribute half that amount into a debt pool.

With the decrease in the Tariff rates, the consumption of data has increased. The revenue of the telecom sector has declined in the 3rd quarter of the 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

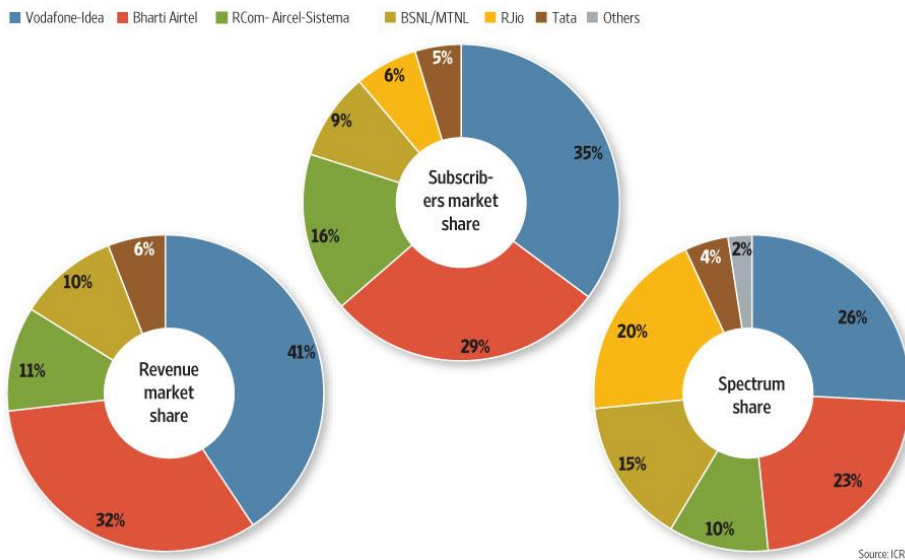
Firms	Deal	Spectrum band
Bharti-Qualcomm	Acquisition	2300MHz
Bharti-Augere	Acquisition	2300MHz
Bharti-Aircel	Spectrum trading	2300MHz
Bharti-Videocon	Spectrum trading	1800MHz
RCom-RJio	Spectrum sharing/trading	800MHz



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



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

With the advent of Reliance Jio and its 4G services, following are the impacts on incumbent competition and the Indian telecom sector :

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 in the 4G spectrum has decreased, which has resulted in the sales of 4G Smartphones.