

Recent Developments in Indian Telecom Sector

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Abstract

Developing economies like India, which tend to offer comparatively higher growth than the developed economies, have gained popularity among investors as lucrative investment destinations for foreign institutional investors (FIIs). Investors are positive on India and sentiments are promising, following the current government's announcement of a series of reform measures in recent months which transformed its face, especially demonetisation. It has been observed that FIIs took their money out under the conditions of volatility in the Indian stock market, while on the other hand, it impacts the behavior of the DIIs in India. So this paper focuses on the behavioral aspects of FIIs and DIIs in order to study the relationship between the two.

The aim of this study is to find out whether there exists any significant relation between the Indian stock market (NSE-CNX NIFTY) and FII. We have used correlation to find out the extent of relationship between the two variables and to validate the impact of FIIs on Indian Stock Market.

Introduction

Institutional Investors are those organizations which collect large funds and then invest those in securities, financial, real estate & other investment assets. Institutional Investors are the most influential players in the stock market of any country because of their money power and the crucial role they play in the movement of stock indexes. Generally it has been observed that when institutional investors buy heavily the stock market goes up and when they sell it goes down. Mutual Funds, Pension Funds, Hedge Funds, Banks, Insurance Companies, Investment Banks etc. are referred to as Institutional Investors. These are further divided into two parts a) Domestic Institutional Investors (DIIs) and b) Foreign Institutional Investors (FIIs). DIIs invest in their home country where they are based while FIIs invest in countries other than their base country.

Rationale of the study

Telecommunication has always been a dynamic sector exposed to a vast variety of changes in terms of entry and exit of firms, innovations in technology, mergers and acquisitions, government policy changes, fluctuation in tariffs etc. This sector is of strategic importance to the Indian economy as new technologies create new communication options and telecommunications can reduce the information and transaction costs in the economy. Also, inadequate regulations could dampen the investment and innovation in the sector.

Presence of this dynamic component in the nature of the telecom sector makes the study of various ongoing processes vital for realizing the overall growth of this sector and hence its

impact on the economy. Price wars, mergers, sell offs, corporate acquisitions, regulator-operator tiffs, law suits and job cuts- these are some of the major developments that roiled the telecom sector in the past financial year. The turmoil in the telecom sector has offered a number of examples to cover everything from human resources and industrial relations to strategy, marketing and business models.

Objectives of the study

- The main aim of this study is to analyse the wide variety of factors influencing the state of affairs in the Indian telecom sector in 2016-17. A close observation is made for each and every activity resulting in fluctuation of revenues as well as valuation of major telecommunication giants such as Airtel, Vodafone and Idea.
- The story of Indian Telecom Sector during this period is one where companies concentrated on premium subscribers and then, when a new entrant with freebies entered, scrambled to sign up everyone, is being detailed and explained.
- Jio, since its launch in September, managed to get 100 million-plus users and more than 72 million of them have signed up for its paid services. Our motive here is to infer how to cope in a sector where the dynamics are constantly changing with advancement in technology and new offerings by companies.

Tracing the developments of the past

- With the announcement of the New Economic Policy in July 1991, the telecom sector was declared open to the private sector.
- The National Telecom Policy, 1994 adopted by the Government aims at improving India's competitiveness in the global market and rapid growth of exports coupled with its focus on attracting foreign direct investment and stimulating domestic investment. Telecommunication services of world class quality were necessary for the success of this policy. It defined certain important objectives, including availability of telephone on demand, provision of world class services at reasonable prices, ensuring India's emergence as major manufacturing/export base of telecom equipment and universal availability of basic telecom services to all villages.
- The entry of private players in the sector necessitated the need for regulation. As a result, the Telecom Regulatory Authority of India (TRAI) was established in 1997 to regulate telecom services. TRAI has been instrumental in issuing a large number of regulations from time to time thus, transforming the age old, government owned monopolistic telecom market into a multi-operator, open and competitive market.
- Thereafter, the New Telecom Policy was declared in the year 1999 which laid down a clear road map for future reforms by opening up all the sectors in telecommunications to private players.
- In recent years, various policy initiatives and developments have given a boost to the telecom sector. The announcement of 'Digital India' program in the first 100 days of the government in 2014 came as a breath of fresh air for an ailing sector. Telecom companies embraced the initiative and committed in excess of INR 4 trillion to further

this growth agenda. The underlying commitment was towards strengthening network infrastructure, enhancing mobile broadband connectivity and providing next generation services and applications.

- This was followed by Government's decision to develop 100 smart cities across India that continues to draw both international and domestic interest. The following section describes some of the major changes in the recent years.

Technological developments The growth of telecom sector has also been fuelled by the launch of newer telecom technologies like 4G, and emergence of cloud technologies. Efforts are continuously being made to develop affordable technology for masses and reinvigorate the maturing urban markets and help in bringing balanced growth of economy.

Declining tariff A large number of options have been made available to the subscribers to choose from the market depending upon their usage profile. The telephone tariffs have declined dramatically over the years making the mobile telephone affordable to the common man. All this has resulted in increased competition among the various market players. The stiff competition amongst players has further reduced the tariffs.

Changing customer demands Mobile telecommunication technology is rapidly evolving with people demanding mobile services with longer bandwidth and new innovative services like seamless connectivity, 3G and 4G.

Telecom equipment manufacturing The astounding growth of the telecom sector has led to the development of the telecom equipment manufacturing and other supporting industries.

Mobile Number Portability (MNP) MNP services were launched in the year 2011 which allowed subscribers to retain their existing mobile telephone number even they switch from one service provider to another, irrespective of mobile technology. Implementation of this technology has not only benefitted the subscribers by offering them a wide range of choices but has also prompted service providers to offer innovative, affordable, and competitive tariff plans for the benefit of the subscribers (TRAI).

Competition Deregulation, declining tariff, opening up of the sector to foreign investments, lowering of prices, increased efficiency, greater innovation, better quality services, changing customer demands and last but not the least technological developments has led to increased competition among the telecom service providers.

Review of Literature

Article 1- Singhal, Prashant. "An Overview of Indian Telecom Industry in 2016 and Outlook for 2017" The Economic Times (2016)

Review: This article presents an overview of the timeline of growth of data usage and its significance over time. The author begins with highlighting the relevance of 2016 in terms of profitability, pressure, hyper competition, spectrum trading and price war in the telecom sector. Right from the auction of spectrum in August 2016, the article draws attention to every single landmark achieved in the telecom sector. 2016 saw a new player in the market with aggressive tariff policies involving free voice calls and free/low cost data due to which, all the rivals too engaged themselves in price war involving 4G data and because of further competition, companies are reducing price and benefitting consumers. Thus, the once

traditional, voice driven Indian telecom market's focal point shifted to data. India is highlighted as the second largest smartphone market in terms of volume and with average cost of handset declining, we can expect further increase in data usage. Also, in accordance with same, average data consumption per consumer is rising. This also gives rise to mobile banking, digital payments and growth of other parallel industries.

Article 2- "Indian Telecommunications Industry Report" India Brand Equity Foundation (December, 2018)

Review: this article analyses the impact and influence of mobile tariffs on the telecom sector. 2016 witnessed innovative tariffs due to entry of new players. The standard pattern being unlimited voice calls and tiered data for fixed plans, the entry level plans are as low as INR 145, providing services close to Average Revenue per User (ARPU). Also, we could effectively observe the price per GB of data declining. This is going to affect mobile data revenue growth in short term. This lower tariffs are however not sustainable in long run due to high spectrum fees and infrastructural requirements. It is going to affect the profitability and stability and lead to consolidation. With potentially zero revenue from voice which was approximately 65% of total circle revenue in FY16, it is likely to be the worst hit for Telecom. Other costs like customer acquisition costs could increase due to hyper competition. The profitability is going to remain subdued and telecom will be relying on data volume growth.

Article 3- "Telecom Sector set for an Action Packed 2017". The Economic Times (2016)

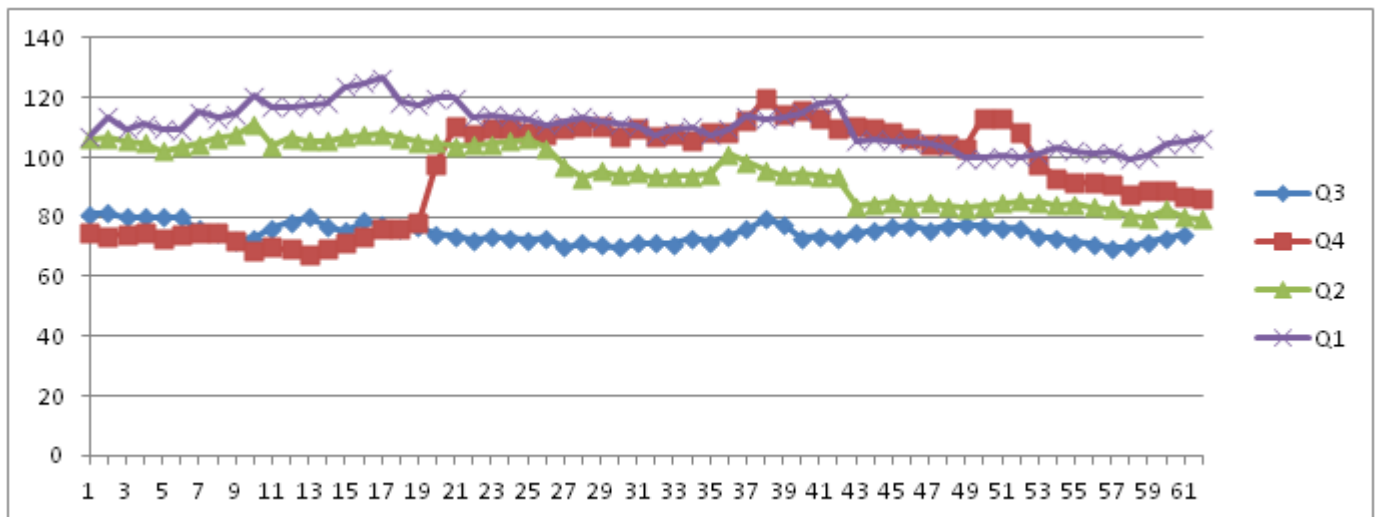
Review: The article talks about various highlights expected in 2017 due to developments like lowered data tariffs, free voice calls and entry of Reliance Jio in the market in FY16. Revenues have also taken a hit due to TRAI's decision on freebies and differential price policy of Facebook free basics and telecom sector. However it has actually had a positive impact in making data affordable and accessible for all. This year also witnessed Department of Telecom's attempt to check call drops and service quality through review meetings and drive tests. The year also saw improved affordability of handsets and data with improved network coverage pushing India to become the second largest smartphone market overtaking US. Demonetisation and digital India have also added to adoption of mobile wallets as a parallel sector. Improved telecom infrastructure is also a catalyst to overall growth and efficiency.

Article 4- <https://www.ibef.org/sector/telecommunications.aspx>

Review: In this article, author wants to show the clear picture of wireless and wireline network in urban and rural India. Where clearly wireless segment has approximately 97.62 per cent of total telephone subscription, 2.4 per cent is the share of wireline segment. Urban area dominated with 57.6 per cent share in overall subscription and rural accounted to 43.4 per cent. India's teledensity was at 83.36 per cent. Even Foreign Direct Investment in Telecommunication Sector has been increased to 100 per cent from 74 per cent.

Research Methodology

A fixed set of data has been used for the purpose of studying the impacts of actions of rival firms and the disruptive new entrant. The share prices of three major players namely Airtel, Idea and Vodafone have been taken into consideration and a detailed analysis has been carried out with reference to their quarterly closing prices. This particular data set was chosen keeping in mind that stock prices reflect the market's perception of the company in terms of its performance, management, profits and/or losses. The time period of study is financial year



2016-17 which is the prime matter of study because of the dynamic and hyper-competitive character that this sector adopted during this time.

Analysis

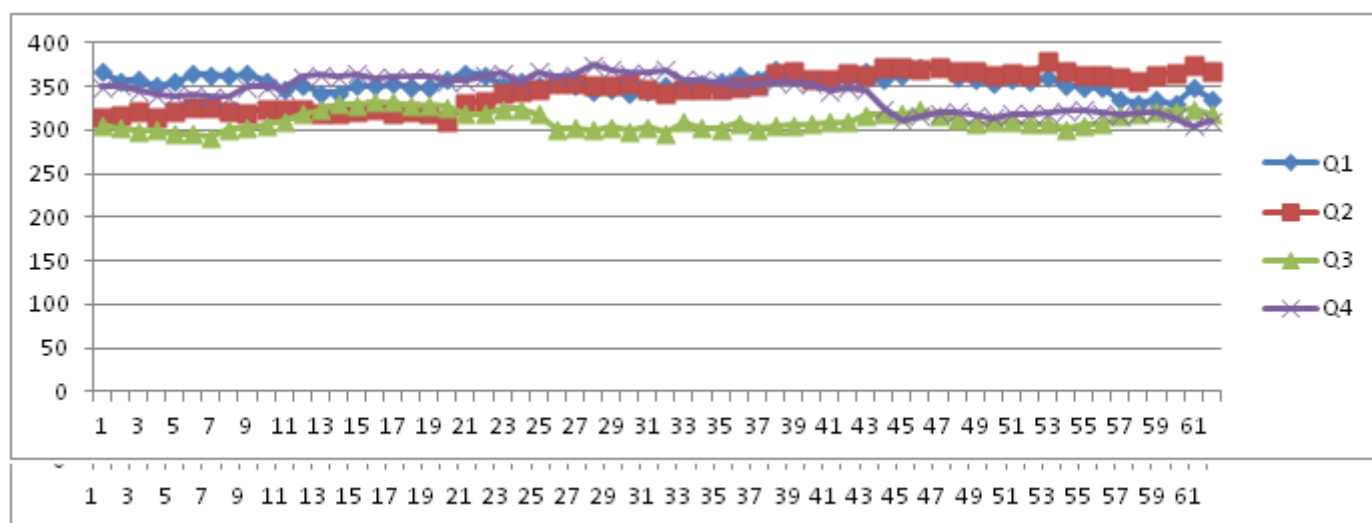
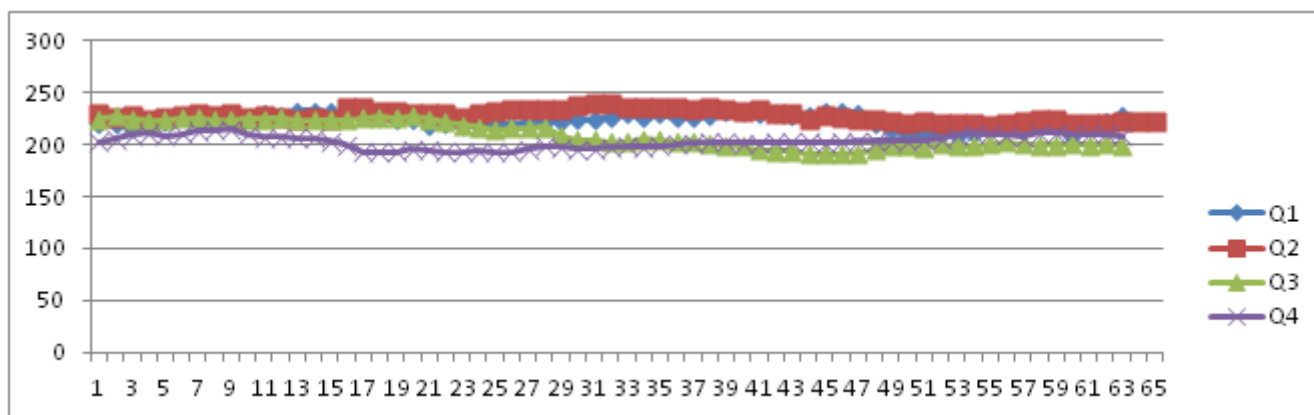
Idea

X axis- Week no. Y axis- Share Price (in Rs.)

There has been a drastic change in the last four quarters in the telecom market. Idea Cellular, a major player, witnessed a roller-coaster ride after the launch of Reliance group's largest investment in the telecom market, named as Reliance JIO. As we are aware that the share market functions on predictions, assumptions and mostly rumors, straight after the announcement of Jio's freebie offer to be extended from LYF to LG phones and finally to all 4G volte enabled phones, the share prices of idea cellular have seen a catastrophic fall as can be observed in the diagrammatical representation. Aditya Birla Group's telecom major faced a severe price crisis during quarter III when JIO was launched and maintained almost the same spot for a long time. In the beginning of quarter IV, the company managed to grow at the same pace. Even after providing huge discounts and benefits to the customers in the era of cut-throat competition, the sales were now growing until the magic of rumors raised in the share market. Rumors were heard of country's biggest telecom collaboration between Idea and Vodafone. After this announcement, company's shares soared a little but ended the year in dismay.

Vodafone

X axis- Week no. Y axis- Share Price (in Rs.) 2016 was a turbulent year for one of the most vibrant sectors of the country, the telecom sector which saw a great deal of shock and emergence of a new theory in oligopoly market. Where most of the companies saw huge ups and downs, Vodafone was able to stabilize their functionalities. As we can clearly see that all the four quarters haven't seen much of fluctuations, with price of the shares remaining between 200 and 250. One of the major reasons for this is that Vodafone India is not a listed

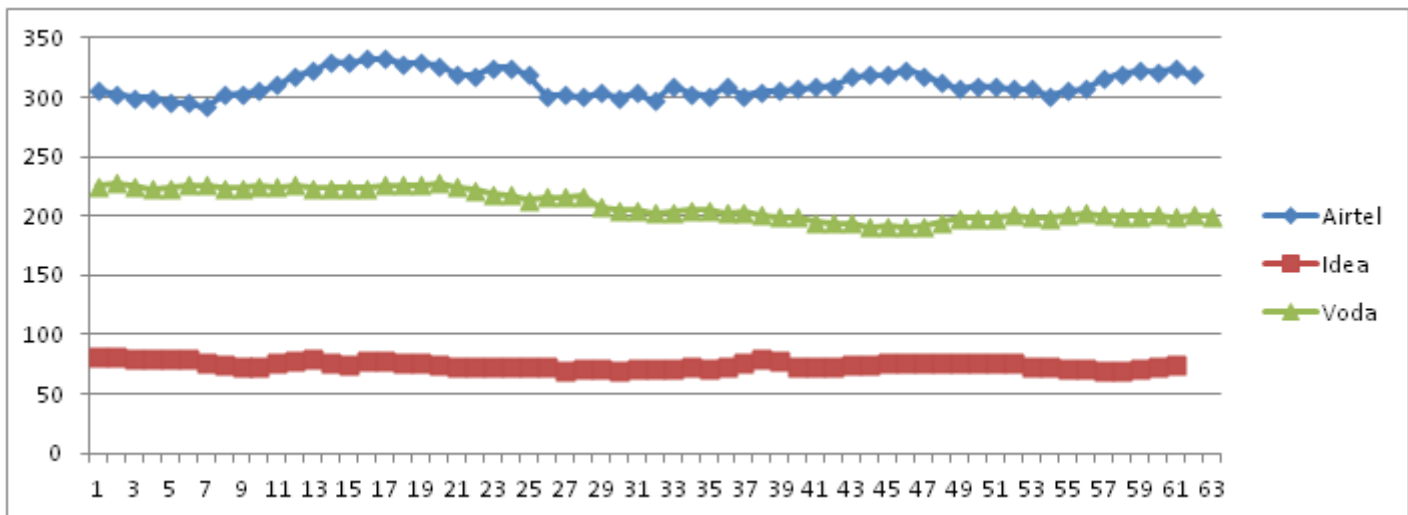


company and only the Vodafone group's shares are traded in India. Vodafone is a global company with a number of subsidiaries under it. That's why one can see more or less stable graph of Vodafone's shares in FY17.

Airtel

X axis- Week no. Y axis-Share Price (in Rs.) India's biggest telecom giant since last many years has been facing serious crunches during this period. Bharti Airtel is known for providing quality communication to their customers. They have been ruling the market by the virtue of consumer centric services. In quarter one itself Airtel's shares started dwindling with fluctuation from 360 per share to ending at approximately 330 per share. The prime reason for the same could be that Airtel's net profit was reported at INR 7,546.50cr for FY16 as opposed to 13,200.50cr at the end of FY15. Earnings per share also slipped to 18.88 from 33.02 in the last financial. Little uptrend could be observed in quarter two as the market stabilized.

But as soon as Reliance Jio hit the market, Airtel's prices fell by up to 50 points. Soon thereafter, Airtel indulged itself into price war and concessional benefits instead of quality centered approach, with sole motive to capture the entire consumer base possible in the crisis period of freebies by Jio. Again by the fourth quarter, Airtel saw its prices falling from 350 to about 310 due to the air of competition, price war and rumored merger of Idea cellular and Vodafone India to form the country's biggest operator.



Quarter 3 Comparison

Quarter 3 of financial year 2016-17 could be called a historic quarter as it has seen a huge transformation, schemes, offers, disturbances and interventions, including that of government in the economy. We saw launching of revolutionary Jio to enter the telecom market; Telecom Regulatory Authority of India took some big and efficient decisions with regard to spectrum bonds and policies related to oligopoly. International disturbances and results of most awaited polls of elected president of the United States and most importantly the government of India's banning INR 500 and 1000 as legal tender. This quarter must have been the most vibrant one in the history. Hence, telecom market was affected as well. In this quarter telecom giant Airtel saw huge fluctuations but still at the end Airtel topped the charts as compared to other giants of the market. The three majors also saw a steep fall in the subscriber base and market share.

Results and Conclusions

Price war is the main strategy adopted by the major giants in order to resolve the competition pressure in the sector. But we also need to look at the fact that price war is only a short term solution for the problem and is actually disguised long term damage to the entire sector. The flourishing telecom market is extremely competitive. Operators are constantly offering new promotions, offers, freebies, enticements, and other marketing "hooks" to attract new customers and capture share from competitors. Advertisements across media are being used to target each other. As the major differences between the various products and services available on the market decrease, operators unavoidably start to reduce their prices. This is precisely how a price war begins. While these wars can initially alleviate the pressure on targets and quotas, ultimately, they leave both the aggressor operator and the market considerably worse off. Operators should hence, try to prevent a price war.

In its initial phase, price wars appear to offer positive results. The ramifications, however, run much deeper. "Price wars promise much at the outset, but yield little in the end: at first, gross additions strongly jump as customers shift to another operator. Soon after, the 'winner's' network capacity is tested as traffic rises and the quality level decreases. In consequence, 'losers' have to redouble media expenditure and offer incentives to lure their customers back. This, in turn, forces the 'winner' to follow suit and spend more to survive," said David Tusa.

A study of six developed and emerging markets during price wars – spanning Asia, the Middle East, and Europe – demonstrates that the net effect is a substantial loss in market value.

Low tariffs could lead to unsavoury consequences for companies but benefits for consumers. Sectors like banking and insurance, too, could benefit as lower tariffs mean higher profits for those who heavily depend on the service to market and deliver their own products and services. The entry of Reliance Jio Infocomm has shaken up the telecom sector that had three dominant players — Bharti Airtel, Idea Cellular and Vodafone India. Jio's free offers that lasted for six months led to the sector's worst price wars. The aftermath was falling revenues and profits for the companies, debt upwards of 4.80 lakh crore and a wave of consolidation.

For a sector seeing double-digit revenue growth over recent years, FY16 marked a reversal. At Rs 2 lakh crore, the sector grew by 6%; it was nearly double this in FY11-15. Revenue growth for September was only 4.30% over the year-ago period.

What is hurting the sector, riding high on strong voice growth and robust subscriber addition, is intense competition over the past 18 months. What has aggravated this is the entry of Reliance Jio (RJio), offering free voice and data services, from September. Despite reduction in the number of operators in the recent mergers of Reliance Communications-Airtel and Airtel acquiring spectrum from Videocon, competitive intensity remains high.

Amid all this, the top three have consolidated their market shares and now account for 75% of the overall revenue pie. The September quarter number is up 200 basis points (bps) over the year-before period.

As the fluctuations in the sector are assessed, we arrive at the question “How to retain existing customers and acquire new ones aggressively and how to respond to specific strategies used to counter the latest entrant?” The unruly new entrant in the FY17 hit the market with a variety of innovative tariffs especially focusing in rock bottom data prices and free voice calls for lifetime. Due to this aggressive pricing policy, the consumer base of rival firms was massively disturbed and they gradually began losing numbers. In order to retain the existing customers and compete for acquiring the new ones, the firms engaged themselves in price war involving lowering of tariffs to the competitive market prices and specific strategies similar to those of the newbie. For example, the minimum packaged 4G data plan was kept as low as averagely INR 145 including free voice calls.

The RJio launch has had a twin impact. It has forced incumbent operators to price their products aggressively to retain subscribers. Bharti, Vodafone and Idea recently launched unlimited voice plans, bundled with data. Bharti's move, according to HSBC analysts, highlights that it is willing to re-adjust to a lower Arpu (average revenue per user) to retain subscribers. Also, with this move, it is attempting to drive utilisation of fourth-generation technology (4G) services. However, the aggressive pricing has not led to a significant uptick in volumes. The key risk for the top three (Bharti, Idea and Vodafone), feel analysts, is further deceleration of data volumes. RJio alone accounts for 80% of sector data volume.

The big question is, whether the past six months would have shaped differently if, instead of price wars, telcos waged a battle on better product offerings.

COMPETITIVE PRESSURES WEIGH ON GROWTH



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