



Everybody's talking about telecom

The cap on foreign investment in the telecom industry has just been substantially upped. What does it portend for the majors in the fastest-growing market in the world?

Abhijit Joshi reports.

India's man on the street has discovered the joy of talking while on the move. People talk at bus stops and in trains; they trade in shares and strike deals; they build romantic alliances and break barriers - all on handheld mobile phones. The mobile telephone reflects a sweeping boom in consumer spending. The little handset is a must-have for most Indians, be they business folk and executives or small-time shopkeepers, vegetable vendors, housemaids, plumbers and carpenters.

Cellular subscriber numbers have begun to swell, making India one of the fastest growing markets in the world. According to research firm Gartner, India will remain the highest growth market for telecommunications in the Asia-Pacific region this year with 35 million new subscribers, a rise of 18 per cent from the number in 2004.

But cell phones are just the most visible aspect of the booming telecom industry which was thrown open to private enterprise in 1994. Until then, all aspects of telecom were run by government-owned enterprises - from manufacture to service operations. The most recent impetus to further liberalisation came on February 2, when the Union Cabinet upped the limit for foreign investment in the industry from 49 per cent to 74 per cent. With this measure, more numbers are going to be added as competition, and consolidation, will increase. The government believes that due to the liberalised foreign investment policy, the industry can expect over \$800 million in additional investments this year.

India has been adding about 1.5 million mobile phone subscribers a month for more than a year now. On the other hand, its fixed line subscriber numbers have grown between 300,000 and 400,000 a month.

At the end of February this year, India had 97.03 million telephone subscribers, of which 51.44 million were mobile phone subscribers and 45.59 million were fixed-line subscribers. In the fixed-line market, state-owned telecom firms, Bharat Sanchar Nigam Ltd. (BSNL) and Mahanagar Telephone Nigam Ltd. (MTNL) are market leaders. BSNL has 35.52 million subscribers and MTNL, 4.06 million.

There is potential in the market and entrepreneurs, both Indian and international, recognise it. Reliance Infocomm, a fully integrated operator and an associate company of Reliance Industries, the largest

industrial group in India, entered the industry with CDMA technology. Within two years of its launch the company has emerged as India's biggest mobile phone operator with more than 11 million subscribers.

The Sunil Mittal-Singapore Telecom joint venture, Bharti Tele-Ventures, India's only listed mobile telephone company, is the biggest player in the GSM space with more than 10 million subscribers. BSNL is the third largest mobile phone operator with 8.8 million subscribers followed by the joint venture between Hong Kong-based Hutchison Whampoa and India's Essar group, Hutchison Essar Ltd. The group has 7.6 million subscribers. Idea Cellular, a joint venture between two of the largest business groups in the country, the Tatas and Birlas, with Singapore Technologies Telemidia and Telekom Malaysia has 5.07 million subscribers.

The Tatas are also in the competing CDMA technology camp through the group's telecom company, Tata Teleservices, which has 3.4 million subscribers and adds about 360,000 million subscribers a month. This includes its fixed 'wireless' telephony business, in which it leads the market with more than two million customers. In addition, the Tatas acquired Hughes Telecom in December 2002, which is now the publicly listed Tata Teleservices (Maharashtra) Ltd.

The mobile phone business, which got started as recently as 1994 when the government allowed private entrants into the telecom sector, has been on a rise over the years as tariffs kept sliding. But inflexion point came in May 2003 when the Telecom Regulatory Authority Of India, which approves tariffs, ruled that there should be no charges on incoming calls. This decision on mobile telephony triggered off an exponential growth curve and now the Indian experience is being looked upon as a role model for several developing countries.

Bitter price wars, which cut tariffs to the lowest in the world, have boosted the popularity of the mobile phone service. Basic call charges are currently as low as 2.5 cents per minute. What has also helped is that the drop in prices was not restricted to just mobile telephony. Long distance tariffs for national and international calls have fallen from \$1.06 a minute for a call to the US, to 20 cents.

WHO'S WHO IN TELECOM

BHARAT SANCHAR NIGAM LIMITED

A K Sinha, CMD
Subscribers 45.86*
www.bsnl.co.in



RELIANCE GROUP

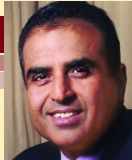
Mukesh Ambani, Chairman
Subscribers** 12.33*
www.relianceinfo.com

** Includes Reliance Infocomm and Reliance Telecom



BHARTI TELE-VENTURES

Sunil Mittal, CMD
Subscribers 11.5*
www.bhartiteleventures.com



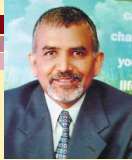
HUTCH

Asim Ghosh, MD
Subscribers 7.65*
www.hutch.co.in



IDEA CELLULAR

Vikram Mehmi, CEO
Subscribers 5.07*
www.ideacellular.com



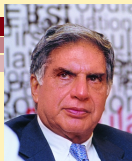
MAHANAGAR TELEPHONE NIGAM LIMITED

R S P Sinha, CMD
Subscribers 5.03*
www.mtnl.net.in



TATA GROUP

Ratan Tata, Chairman
Subscribers** 3.5*
www.tataindicom.com



** Includes Tata Teleservices and Tata Teleservices (Maharashtra) Ltd.
* subscribers in millions

Source: COAL, AUSPI

The runaway growth in mobile telephony has helped to boost teledensity to 9 per cent in February this year from 5.2 per cent in 2003. That statistic seems impressive, but it also underscores India's growth potential; it still has a long way to go to reach a world average of 22 per cent. The government estimates that the number of telephone subscribers will climb vertiginously from the current 97 million to 'between 200 million to 250 million' by 2007.

Despite low tariffs India's large volumes ensure profitability. Bharti Tele-Ventures recorded net profits of \$222.6 million on revenues of \$1270.4 million during the nine-month period April-December 2004. That represented a staggering year-on-year growth rate of 251 per cent. As other mobile telephone companies are unlisted yet, industry analysts believe that they could also be having operating margins of 34 per cent.

According to research firm, Ovum, studies indicate that Indian consumers spend

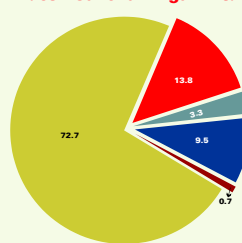
almost the same proportion of GDP on mobile services as those in Europe. It is hardly surprising then that India is considered the jewel in the crown of Hong Kong-based Hutchison, a mobile phone service provider, which operates in countries like Israel, Sri Lanka and the Philippines.

With such profitability, other global groups such as Maxis Communications Berhad of Malaysia, AFK Sistema of Russia and Luxembourg-based Millicom International have also evinced interest in India. Officials in the telecommunications industry feel companies such as Vodafone, which had withdrawn from the Indian market, are likely to return.

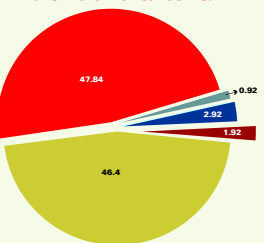
As size has begun to matter, there have been several aggressive acquisitions by telecom majors to offer seamless services to their subscribers. In December 2002, the Tata group acquired the state-owned Videsh Sanchar Nigam Ltd., which was the country's sole international gateway at that time. VSNL, under the Tatas, acquired Tyco Global Networks in the US last year

SHAREHOLDING PATTERN OF PUBLICLY LISTED TELECOM MAJORS

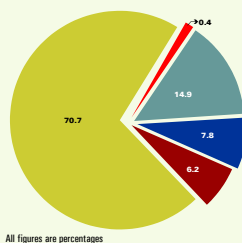
Videsh Sanchar Nigam Ltd



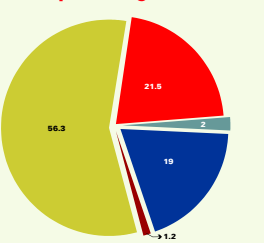
Bharti Tele-Ventures Ltd



Tata Teleservices (Maharashtra) Ltd



Mahanagar Telephone Nigam Ltd



All figures are percentages

Promoters Foreign Institutional investors Public Others

Source: Bombay Stock Exchange



THE OPERATIONS CENTRE OF RELIANCE INFOCOMM NEAR MUMBAI: Within two years, it has become India's biggest mobile phone operator

THE M&A GAME

WHEN PRIVATE ENTRANTS were allowed to enter the telecom industry in 1994, over 30 foreign operators formed JVs to bid for the licences for the 24 service 'circles'. The tie-ups were formed as Indian businessmen had no working knowledge of the industry, as it was entirely government-owned.

Among them were the global industry majors such as AT&T, Vodafone, British Telecom, Bell Canada, Swisscom etc. All these have now exited the industry with the rash of mergers that have taken place in the past decade with several operators selling out their businesses to the Big Four that have emerged; the Hutchison group, the Tata group, the Reliance group and Bharti Tele-Ventures. (The government owned MTNL and BSNL have not been part of the M&A game.) The result is that there are only four foreign operators in the business; Sing Tel, Hutchison, France Telecom and PCCW.

Currently, there are several foreign suitors on the block, among whom are Korea Telecom and Japan's KDDI, which are reportedly in talks with the Tatas, the world's largest CDMA operator, Korea's S K Telecom, and Russia's AFK Sistema. Within the industry, there is also a scramble among the smaller operators, who are running networks in smaller circles, to merge with one of the Big Four so that they can be part of a larger national network.

And the return of the global majors, who exited India, is also not ruled out.

for \$130 million. At the same time, Reliance bought out Flag Telecom, which has one of the largest undersea cable networks, for \$211 million.

With the Indian telecom industry growing by leaps and bounds global handset makers too smell big potential. Handset manufacturers are therefore focussing on opening units in India to make handset terminals and telecom components. Nokia and LG Electronics are setting up a manufacturing base in India for mobile handsets and Finnish original equipment manufacturer Elcoteq will make telecom-related equipment besides handset terminals. Nokia plans to invest \$150 million over the next

four years and LG Electronics will pump in \$60 million to make GSM and CDMA handsets at its plant in Pune. "India's position at the heart of a rapidly growing mobile communication region makes it an attractive option for us to establish our new manufacturing facility here," said Nokia president, Pekka Ala, in New Delhi while announcing plans to set up a manufacturing base in India.

There are other spinoff benefits from the telecom boom; India's expertise in information technology is making it an important research and development centre. Global companies such as Qualcomm, Nokia, Alcatel and ZTE are

either setting up or expanding their R&D and engineering centres in India. Indian software skills, in content development and other mobile applications, are also finding global demand. Mobile gaming in India is expected to attract revenues of between \$250 million and \$300 million by 2008, according to research reports.

What does enhancing the limit for foreign investment mean for the industry? Faced with estimates of \$35 billion of investment required for the capital-intensive industry, telecom executives are cautiously happy that it could mean easier funding access. As Kishore Chaukar, managing director of Tata Industries, which has promoted Tata Teleservices, says, "The hike will channelise more funds into telecom, apart from increasing the flexibility of operators." Sunil Mittal, CMD of Bharti Tele-Ventures says, "Companies can now access foreign capital markets to serve the hinterland..." Ravi Menon, director and co-head of investment banking, HSBS Securities and Capital Markets opines, "The hike is a huge positive and is clearly going to attract a lot of foreign investment."

A lot of investors will certainly hope to emulate the success of Warburg Pincus, which has seen its \$300 million invested in Bharti Tele-Ventures in 1999 appreciate by over a billion dollars. It is uncertain whether other foreign investors can replicate the Pincus experience. But one thing is certain: the industry is not going to have a death of foreign investors.