

This edition focuses on the Indian telecom revolution. From the time when only one in 500 persons had access to the telephone, today every one in three persons has a mobile connection. In fact, a recent India Millennium Goals study reveals that today more people in India have a mobile connection than access to sanitation. The stupendous achievement of the sector also found a proud mention in the US president Mr. Obama's speech during the latter's visit to India, who narrated the famous case of how fishermen in Kerala have seen a rise in their livelihoods due to availability of live quotes of their catch through mobiles. Here are some statistics that indicate the magnitude of growth of this industry.

Total subscriber base (including multiple SIM users) stands at 19.26 crore with mobile penetration at nearly 58% as on date. With CAGR of 33%, India has registered the highest annual accretion to its subscriber base (at average two crore subscribers every year) and is today the second largest market in the world in wireless communication. Hike in FDI limits from 49% to 74% and the vast potential here has attracted large scale FDI flows with cumulative FDI in the sector pegged at Rs.33, 957 crore till date. Current investments by the telecom industry stand at 40 billion USD and export of hardware products stood at 4 billion USD during 2009-10. The industry generates nearly 43 billion US worth revenues for the exchequer.

In many ways, the Indian telecom story offers an interesting case study- of how the sector has flourished so much and in such a short time without explicit state support; of how the industry has been through low cost high quality infrastructure and innovative marketing able to win over the peculiarities that characterize the Indian market. In India 90% of the revenues accrue from non data services (namely voice and messaging services). Of this 85% revenues come from messaging. Again, a whopping 95% of the customer base is low-cost prepaid connections. India is also a country where the telecom service providers have to address the needs of the low spenders on one hand through provision of basic telephony and on the other hand cater to the demands of the technologically savvy clientele through provision of web enabled smart applications on the mobile.

Ever since the New Telecom Policy opened the doors to private players in 1999, falling tariff charges and smart strategies like Calling Party Pays (CPP) and Lifetime schemes have helped expansion of the customer base so rapidly. And once customers discovered the benefits from a mobile connection, they were hooked on. As per an UN study it has been estimated that a 10% rise in mobile penetration increases GDP by 1.2%.

However many challenges confront the industry. The foremost problem that the telecom companies need to tackle is that of falling average revenue per user (ARPU) from Rs.1299 in 1999 to Rs.164 for GSM and Rs.89 for CDMA mobiles in 2010, owing to stiff competition. While on one hand the companies are reducing the tariff charges to increase their subscriber base; huge sunk costs in setting up towers, in funding costly global acquisitions and in license payouts for additional spectrum are eroding the profitability of the companies. In such an unsustainable future scenario, the only way out is consolidation among the domestic players and more tie-ups with international companies which will enable the Indian companies to make inroads into untapped territories. However, such mergers need to be proceeded with caution since it is quite possible that the Indian growth chart might not be replicated in foreign lands owing to socio-cultural and economic differences.

This is not to suggest that all is lost. While average teledensity in urban areas might have reached 100%, in rural areas there is still immense potential. The Universal Service Obligation Fund set up to encourage private players to increase their rural presence (by incentivizing them through subsidies) has failed to achieve the desired results. Rural teledensity stands at a woefully low level of 18.37%. However as the experience in Kenya and Philippines shows, there is not only commercial sense in targeting the rural and economically backward areas, the mobile companies can also play an important role in 'cashless' financial inclusion through linkages with banks, MFIs and with the government for payments to beneficiaries of the latter's sponsored schemes. However, this should be precluded by issues relating to fool-proof security of the transmission mechanisms through which the monetary transactions will take place.

The companies also need to roll out next generation products and services for the customers on par with global standards. This will in turn require wider spectrum. In this respect, government needs to have clear cut and fast track policies for fairer allocation of the bandwidth to avoid congestion in network and to support higher end technological services.

The issue of Mobile Number Portability (MNP) has been hanging fire for quite some time and requires to be resolved early for better customer convenience. Similarly, the mobile companies should on their own show resolve as part of ethical practices to tackle the menace of 'telemarketing' unleashed through unsolicited calls and messages; since it is evident that regulatory diktat in this regard through the 'Do Not Call' guidelines has failed. It is equally important for the mobile companies to cooperate with the authorities and do their bid to check misuse by terrorists through due diligence.

Taxes, levies and duties on manufacture of mobile handsets are one of the highest in the world and the government should consider rationalizing them. This will provide a level playing field for the indigenous manufacturers of equipment and also arrest the growth of the widespread gray market (estimated to be about 13% of the legitimate handset industry) by making the handset costs more accessible. Stricter auditing will ensure that there are no leakages of revenues to the government through creative accounting practices deployed by some telecom companies.

We hope readers will find our special on Telecom Industry useful and interesting.