The year 2018 saw the long-drawn consolidation in the telecom industry settling down. Data continued to be the biggest growth driver and there was a massive increase in video consumption. The announcement of the National Digital Communications Policy (NDCP), 2018 provided the roadmap for the country's digital future. On the flip side, financial pressure continued to build up during the year owing to low tariffs and falling ARPUs. Going forward, the competitive headwinds are likely to continue; however, policy clarity and burgeoning data demand will help operators identify new growth areas. Leading industry analysts comment on the key developments in the sector in 2018 and on what to expect going forward…*(from left: Bharat Bhargava, Partner & Leader, Telecom Performance Improvement, EY; Hemant M. Joshi, TMT India Leader, Deloitte; Murtuza Onali Kachwala, Managing Director, Protiviti)*

How was the sector's performance in 2018? What were the key highs and lows?

Bharat Bhargava

The year 2018 was a milestone year in many ways for the Indian telecom sector. The release of the NDCP 2018 was a major highlight. It unveiled the roadmap for India's digital future and set ambitious targets for attracting $100 billion of investments in the digital communications sector by 2022. The sector started operating in its post-consolidation phase, with a three-plus-one market structure. The consolidation was facilitated by the government's initiative to relax

spectrum holding caps, with many of the merged entities standing to gain from the enhanced limits, as they would not need to sell or return excess frequencies any longer.

On the back of growing data usage (which more than doubled year on year to reach around 9 GB per month per subscriber) and 4G smartphone proliferation (growing 45 per cent year on year to around 320 million 4G phones in 2018), telcos' focus on building a content portfolio increased significantly.

The year 2018 was also the year of fibre, with the flagship BharatNet initiative connecting over 120,000 gram panchayats by December 2018 and key telcos launching their fibre initiatives. In addition, the sector initiated robust groundwork for 5G.

In March 2018, the cabinet cleared a one-time relief measure for telcos, extending the payment tenor for auctioned airwaves from 10 years to 16 years. Although a welcome step, the sector needs much more relief, such as in the areas of licence fee and revenue share. In all, pricing pressures and challenging cost structures continued to impact the industry, especially the incumbents. Moreover, the spectrum pricing recommendations were a dampener as the prices were still high compared to global prices.

Hemant M. Joshi

The year 2018 was a milestone one for the Indian telecom sector, as it set the platform for Telecom 2.0. While in the 1990s the market was opened up for private participation, 2018 witnessed a consolidated market, with the number of major operators coming down from 13 to 5. Internet subscription and data were the highlights of 2018, making India the highest consumer of data. Monthly data consumption increased from 1.8 GB in 2017 to 4 GB and is expected to rise to 9 GB by the first quarter of fiscal 2019. Broadband subscribers increased by 46 per cent year on year to reach 496 million in 2018. The rising demand for data was backed by the new telecom policy, which aims to provide broadband to all citizens and attract investments worth $100 billion. There has been significant investment in emerging technologies such as artificial intelligence (AI) and internet of things (IoT). The government's commitment to 5G roll-out by 2020 led to 5G-based research and development by major telcos and institutions. These developments signify a move towards Telecom 2.0, which would be the stepping stone to India's $1 trillion digital economy.

Amidst all these highs, the falling ARPUs and plunging top lines of some operators remained a concern and it will be interesting to see how telcos tackle the collective debt of around Rs 8 trillion in 2019. Challenges relating to telecom infrastructure, fibre backhaul, BharatNet implementation and right of way (RoW) remained major hurdles in the digitalisation programme.

Murtuza Onali Kachwala

The year witnessed many significant developments, be it the roll-out of NDCP, 2018, laying the ground for 5G and other emerging technologies, implementation of the goods and services tax, reduction in the EMF testing fee for sites, consolidation and exits in the sector, or digitalisation of services. A key development during the year was the Supreme Court's landmark judgement that stated that individuals do not need to provide their Aadhaar details while applying for new mobile phone connections.

The turning point in 2018 was the exit of laggards such as Reliance Communications, Aircel, Telenor and Tata Teleservices, driven mainly by the disruptive entry of Reliance Jio Infocomm Limited (RJIL). Further, the voice revenue per minute came down by 50 per cent to 18 paise per minute, while the data revenue per MB plummeted by 90 per cent to Rs 1.50 per MB. Voice usage per user went up by 40 per cent while data usage increased by 600 per cent.

What is the likely impact of NDCP 2018 on the telecom sector?

Bharat Bhargava

NDCP 2018 is a strategic aspiration to connect, propel and secure India's digital economy. It is a step change, going beyond the paradigm of telecom to embrace opportunities across the broader digital ecosystem. It hinges on the transformative power of networks and the need for common telecom infrastructure, and endorses a national digital grid. With its Fibre First Initiative and multiple broadband initiatives – BharatNet, GramNet, NagarNet, JanWifi – the policy will build a digitally empowered connected India.

The policy also recognises the power of emerging technologies such as 5G, IoT and AI, and the

need to safeguard digital sovereignty. Additionally, it will enable job creation in the sector, push for the resolution of long-standing issues such as rationalisation of taxes and levies, strengthen India's socio-economic development, and aim for an increase in the contribution to GDP from around 6 per cent in 2017 to 8 per cent by 2022. Timely implementation of these policy measures will support the sector's long-term growth.

Murtuza Onali Kachwala

The new policy has set articulated futuristic goals and undertaken crucial policy initiatives to address the problem of access. One of its objectives is to ensure connectivity to all uncovered areas and attract investments of $100 billion in the digital communications sector. It also aims at expanding the IoT ecosystem to 5 billion connected devices. Another target is to establish a comprehensive data protection regime for digital communications that safeguards the privacy, autonomy and choice of individuals.

Private telecom operators are likely to benefit from the NDCP's plan to expand broadband coverage funded by the Universal Service Obligation Fund. The NDCP, 2018 aims to connect 600,000 villages to the broadband network, establish 2 million Wi-Fi hotspots in rural areas and another 1 million in urban areas.

The NDCP's plan to encourage more efficient spectrum usage by making available harmonised and contiguous spectrum bands and further liberalising spectrum sharing and trading will be favourable to private telcos. However, telcos can skip 5G spectrum auctions if the prices are too high.

What are the key challenges impeding sector growth and how can these be addressed?

Bharat Bhargava

The financial distress in the telecom sector is a major concern. The industry debt of around Rs 4.8 trillion is nearly two times the sector's annual revenues. With pricing pressures and squeezed margins, the industry's adjusted gross revenue declined by 1.1 per cent quarter on

quarter to reach Rs 361.4 billion in the quarter ended September 2018. The strained free cash flows of telcos are an indication of their financial woes. Besides, high capex needs continue to put pressure on the sector. The investment required for creating a nationwide 5G infrastructure alone is estimated at $100 billion over the next five to seven years.

With taxes and levies accounting for over 30 per cent of revenues, the Indian telecom sector is one of the highest taxed sectors globally. Moreover, telcos continue to have high spectrum payouts. There is a dire need to ease the sector's financial burden and strengthen its viability.

From a business standpoint, the sector is at the forefront of digital disruption and market structures are evolving. Traditional players are witnessing competition from newer, more agile and asset-light over-the-top (OTT) service providers. In a bid to sustain themselves and grow, telcos are increasingly entering unknown turf and expanding their digital agenda.

Hemant M. Joshi

There is no relief for operators even after consolidation because of hyper-competition and disruption. On the one hand, telcos need to pay a collective debt of around Rs 8 trillion as well as around 25 per cent of the aggregate tax to the exchequer. On the other, they need to incur high capex on infrastructure, spectrum and new technologies to stay in the race. Traditional voice tariffs are going down and operators are losing revenue despite a sharp rise in data demand.

Telcos need to find new business models to survive the competition. Global operators are exploring opportunities in emerging technologies such as AI, machine learning, cloud, blockchain and data analytics. Some telcos are providing pure-play services as well as creating their own content libraries to provide a better quality of experience.

Murtuza Onali Kachwala

The revenue yield on data services (that is, revenue per bit consumed) continues to decline as consumers use more and more data, with static or declining monthly bills. Hence, it is critical to

identify rapid investment opportunities across the telecom portfolio including 5G, IoT and cross-industry partnerships (such as mHealth and mPayments). Telcos have to take a fresh look at the level of innovation and pursue digital transformation by creating strong cross-functional interfaces and deploying tools for flexibility.

With millions of subscribers, several new products, and bundled and customised solutions, operational support services like service configuration, order fulfilment, customer care and billing are becoming increasingly complex. Telcos need to upgrade their IT and connectivity infrastructure, and focus on providing data and voice services that are high quality, reliable as well as affordable. Security of networks should be a major priority.

What are your views on the evolving 5G ecosystem in India?

Bharat Bhargava

After lagging behind its global counterparts in 3G and 4G, India is aiming for initial 5G deployments by 2020, in line with global launches, which will be a significant feat. Over the past one year, numerous 5G initiatives have been taken by the government, telcos and ecosystem players. The roadmap shared by the government's 5G steering committee has been a welcome step. 5G test beds have been launched, strategic ecosystem partnerships have been formed, and telcos have conducted lab trials and demonstrated use cases.

Successful transition to 5G will depend on multiple market forces. 5G spectrum auctions are not expected before 2020, and high reserve prices might be a concern. Moreover, telcos will need firm business cases, data monetisation strategies and significant changes in business models. In the long run though, 5G will create a deep transformational impact on India, unleashing new socio-economic development opportunities as well as business models with networks that touch various facets of connected living.

Hemant M. Joshi

5G services, which can create an economic impact of $1 trillion in India by 2035, are expected

to be launched in the country by 2020. The government has allocated Rs 5 billion ($77 million) to set up a high-level forum to create a roadmap and policies for the commercial introduction of 5G. Technology trials and tests are going on and a number of network operators and network equipment providers are collaborating with premium institutes for 5G R&D. They are expected to file more patents in the coming years.

Although 5G field tests are expected to begin soon in India, commercial launch by 2020 is difficult considering the challenges in fibre backhaul (only one-fourth of the towers are connected with optic fibre), the financial impediments to new investment in spectrum, small cells, etc., and an underdeveloped 5G-enabled device market in the country.

Murtuza Onali Kachwala

5G standards are still evolving globally and the first commercial launch is expected in 2020. However, operators are deploying their current networks with future-ready options such as MIMO and are working towards network functions virtualisation (NFV) and software-defined networking (SDN) technologies to make their networks 5G ready.

For India, 5G will provide an opportunity to the industry to reach out to global markets. The economic benefits of 5G are far-reaching. The Organization for Economic Cooperation and Development (OECD) Committee on Digital Economy Policy stated that 5G technologies will help increase GDP, generate employment and digitise the economy.

What are some of the new business models and strategies that operators can explore?

Bharat Bhargava

Market saturation in legacy services is driving telcos to transform into digital service providers, with opportunities to grow at much higher multiples. Several services are gaining prominence, such as media content and entertainment, digital payments, enterprise cloud, advertising, e-commerce and a wide range of IoT-based applications.

Telcos are pursuing mergers and acquisitions and partnerships to acquire multi-play capabilities, and achieve faster go-to-market, competitive advantage and long-term sustainability. They are also embracing digital transformation initiatives, leveraging SDN/NFV, big data analytics and robotic process automation (RPA) for internal efficiency gains. Going forward, innovative digital platforms and services will drive telcos' focus towards customer experience more than ever before.

Hemant M. Joshi

The traditional data and voice business is getting outdated. Converged services are likely to be the future revenue models for telcos. Partnerships with media and technology players are helping telcos in providing content as well as new-age services such as m-banking, m-health, real-time analytics and AI to deal with OTT challenges. Pure-play and quad-play services in the UK are helping operators to minimise churn.

Murtuza Onali Kachwala

We are already entering the 5G era. It will enable a host of new applications for enterprises and consumers, including augmented reality, virtual reality, IoT, autonomous vehicles and enhanced mobile broadband. Soon there will be an explosion in the number of devices. To meet such demand, telcos have to come up with new business models and strategies. Traditional business frameworks will no longer suffice, and AI and machine learning will pave the way for next-gen end-to-end digital transformation.

Telecom operators have to invest in digital sales to increase their revenues and reduce commercial costs. Stores need radical reforms too, not just to reduce their footprint but to transform customer experience. For telecom operators, migrating to e-care can reduce call volumes and operating expenses by 25-30 per cent.

Network operators can use analytics to reduce customer churn, make better marketing spend decisions, improve collections and optimise network designs. Telecom companies should also consider ways to derive additional value from their existing assets.

Telecom operators should streamline their application landscape, and standardise and automate their IT infrastructure. Making smart use of digital technologies across the entire business is important for telcos that want to not only fight the declining growth, shrinking margins and intensifying competition of recent years, but also seize opportunities that could make them stronger and more profitable in the future.

What are the key trends expected in 2019?

Bharat Bhargava

In 2019, the industry focus on 5G and fibre networks will gain pace. Applications of technologies such as IoT, big data and analytics, AI and blockchain will emerge to realise the power of digital. The future is expected to be more digital and hyper-connected, fast moving towards becoming consumer-driven and highly mobile-dependent. Technology will blur the lines among disparate industries and the communications sector will play a key role in such a converged ecosystem.

Hemant M. Joshi

Global telcos have already started field testing 5G networks and some operators are likely to start 5G tests in India. IoT spending is expected to rise due to increasing automation and high demand for such services. The year 2019 may bring some relief for operators in terms of competition and price wars. The majority of telcos are starting to provide similar tariffs and have discontinued discounts on their services, which is expected to lower the churn and improve stability in the market. ARPUs are expected to increase or become stable as telcos are starting to charge minimum tariffs for service provision.

Capex spending is expected to increase in 2019 on account of spectrum auctions, investments in wired broadband and roll-out of fibre infrastructure, 5G R&D, roll-out of rural infrastructure and investments in key emerging technologies (AI, machine learning, IoT, etc.).

Lastly, smartphone penetration and affordable data services may see a steep rise in digital content consumption in India, which is already the highest consumer of data.

Murtuza Onali Kachwala

The wave of developments relating to smart cities, IoT, 5G and overall data management is creating opportunities for those operating in the telecom sector and related industries. In addition, we are beginning to see developments and applications relating to AI finally taking shape. In 2019, we expect to see some of the above trends gain momentum, even as new ones emerge and steer the industry in new directions. We can see OTT service growth, fuelled by video streaming and public demand for more non-linear media consumption. However, with an increase in OTT adoption and consumption, further financial and infrastructure pressure will be placed on network operators. Another trend will be increased interest in 5G R&D from industries outside the traditional telco market, including energy, agri-business and transportation.

With the increase in data consumption, network operators and telcos should realise that they need to protect more than just the data being transferred on their systems. As networks become increasingly software defined, their infrastructure will be more vulnerable to attacks. To this end, the year 2018 saw operators rolling out business-wide encryption. In 2019, holistic network security will become more important than ever before. We expect to see encryption transition from a niche-play to a more pervasive technology.

What is your outlook for the sector in 2019?

Bharat Bhargava

Post the consolidation spree, the sector is already operating with three-plus-one players. Competitive pressures will now be directed towards realising larger market shares, higher revenue generating services and achieving higher profitability. As of now, pricing power is yet to come back to telcos, which are grappling with the challenge of customer stickiness in a multi-SIM environment. Additionally, margin pressures continue due to adverse operating leverage from a largely fixed-cost structure. In the long run, increasing ARPUs are essential for the sustainability of the sector.

To combat sluggish growth in core services and stay relevant in the age of digital disruption, the time is right for telcos to push the pedal on digital initiatives and capitalise on the opportunities presented by new revenue streams.

Hemant M. Joshi

The year 2019 may continue to be a year of financial stress. The industry will need out-of-the-box thinking to reduce/eliminate the debt burden. A model that the government uses for the banking sector in recapitalising banks could be considered for the telecom sector as well, especially with reference to spectrum pricing. It is time that telecom gets treated as a strategic sector just like roads, railways, banks, etc.

Murtuza Onali Kachwala

The telecom sector's outlook for 2019 is largely stable. Telecom revenues will see an increasing trend, driven primarily by broadband. Consumers will continue to demand faster and more reliable internet connections as video becomes more embedded in social media applications. It is expected that carriers will invest in their infrastructure to improve user experience and maintain market share.

Competition levels in the mobile segment are expected to ease in 2019. It is expected that this will gradually reduce discounts and promotions to improve returns on over $40 billion of investments. That said, competition will intensify in the home broadband segment with Reliance Jio poised to launch its ultrafast fibre-to-the-home services nationally. Further, the recent buyout of cable TV operators, Den Networks and Hathway Cables, will give Jio a head start in the home broadband turf, which could pose a threat to Bharti's home broadband and digital TV businesses

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