By Kuhu Singh Abbhi

The telecom sector has been among the leading contributors to foreign direct investment (FDI) in the country. According to data released by the Department of Industrial Policy and Promotion (DIPP), cumulative inflows into the telecom sector during the period 2000 to June 2019 stood at $37.05 billion. Further, the sector accounted for 25 per cent of the total FDI inflows into the country during the quarter ended June 2019. The huge influx of FDI can be attributed to various government initiatives focused on improving transparency and ease of doing business in the sector, a favourable regulatory environment and a positive investment climate.

A look at the key trends in FDI inflows into the telecom sector and future growth avenues for foreign investors…

Prevailing policy and regulatory environment

Foreign investment has been necessary not only to supplement domestic capital in the telecom sector, but also to secure scientific, technical and industrial knowledge. Recognising this fact, the government liberalised FDI norms in 2013, allowing up to 100 per cent FDI in the sector. Of this, FDI of up to 49 per cent is allowed under the automatic route while FDI beyond 49 per cent requires the permission of the Department of Telecommunications (DoT). The policy is applicable to all licence types – basic, unified, cellular, national/international long distance, commercial, VSAT, public mobile radio trunked, and global mobile personal communication services as well as internet service provider licences, resale of international private leased circuits, voicemail/audiotex/unified messaging services and mobile number portability services. FDI of up to 100 per cent is also permitted for infrastructure providers offering dark fibre, electronic mail and voicemail services.

In addition to liberalising FDI norms, the government has fast-tracked reforms to attract foreign investment and provide further room for growth to telecom companies. It has allowed spectrum sharing and spectrum trading, thereby facilitating merger and acquisition activity in the industry. In another key policy move, the government has allowed the entry of virtual network operators. This provides foreign players an opportunity to operate in the Indian market as an extension of existing network service providers, with the freedom to create their own service delivery platforms for customer services, billing and value-added services.

In the recently approved National Digital Communications Policy, 2018, the government has envisaged attracting long-term, high quality and sustainable investments worth $100 billion in the telecom sector by 2022. To fulfil this objective, the policy envisages further regulatory reforms to ensure that the regulatory structures and processes remain relevant, transparent, accountable and forward-looking.

Meanwhile, the Telecom Regulatory Authority of India (TRAI) has submitted several recommendations to improve ease of doing business in the sector. It has proposed faster, time-bound approvals for merger and acquisition proposals, more options for conforming to spectrum holding limits post a merger, and the streamlining of the penalty levy process.

Trends in FDI inflow

The government measures coupled with the massive investment potential offered by the sector led to a huge influx of foreign funds. Till 2017-18, FDI inflows in the telecom sector witnessed an increase. As per DIPP data, FDI in the telecom sector increased substantially, from $1.32 billion in 2015-16 to $5.56 billion in 2016-17 and $6.21 billion in 2017-18. However, in 2018-19, there was a slide in FDI to $2.67 billion, a decline of around 53.86 per cent as compared to 2017-18. According to industry experts, the decline can be attributed to the stressed financial condition of the sector. Declining profitability and piling up of debt made it difficult for telecom companies to bring in foreign investments. Further, the wave of consolidation triggered by the entry of Reliance Jio in 2016 reduced the presence of overseas telcos in the country. For instance, multinational operators such as Norway-based Telenor, Russia-based Sistema and Malaysia’s Maxis-controlled Aircel were forced to shut shop, leading to a decline in foreign funds inflow.

However, the tide now seems to be turning for the industry after a period of consolidation. The sector has finally achieved a rational industry size with a three-plus-one market structure. Stability seems to be returning after several quarters of financial upheaval and the near-term outlook is finally looking up. This has helped in regaining investor confidence. As a result, FDI inflows into the telecom sector shot up during the quarter ended June 2019. According to DIPP data, FDI in the sector stood at $4.22 billion and surpassed the total FDI inflow into the sector during the entire financial year 2018-19. Further, telecom emerged as the top sector in terms of FDI received during the quarter. These statistics indicate that the Indian telecom sector continues to be a preferred destination for investors from across the world.

Competitive landscape

Another reason for the influx of foreign funds into the sector has been the changing market structure. The emergence of a three-plus-one structure has intensified competition. Brutal tariff wars and cut-throat competition have eroded operators' abilities to invest and compelled them to explore avenues to garner foreign funds. Operators have started selling their infrastructure assets to foreign investors to meet their growing capex needs. For instance, in July 2019, Reliance Jio announced that a consortium led by Canada-based Brookfield Asset Management Company would acquire its telecom tower assets for Rs 252.15 billion. Prior to their merger, Vodafone India and Idea Cellular had separately sold their respective stand-alone tower businesses, totalling around 20,000 towers, to the American Tower Corporation Telecom Infrastructure Private Limited for Rs 78.5 billion. Meanwhile, Airtel's rights issue worth Rs 250 billion saw participation from foreign players. While Singapore-based SingTel, a part of Airtel's promoter group, said it would infuse Rs 37.5 billion by subscribing to the rights issue, the Singapore government's investment arm, GIC Private Limited, said it would invest Rs 50 billion to pick up around 4.4 per cent stake in Bharti Airtel.

Recent measures to boost FDI

In a bid to maintain the momentum of foreign funds inflow, the government has recently undertaken a number of initiatives. These include allowing 100 per cent FDI through the automatic route in contract manufacturing and single-brand retail. Additionally, the 30 per cent local sourcing norms have been relaxed, and online sales are now permitted without the prior opening of brick-and-mortar stores. These new norms could help in bringing in more FDI into the sector and boost local manufacturing as well as exports.

Future foreign investment avenues

The next wave of growth in the telecom market is likely to be powered by exploding data usage, roll-out of 5G networks and increased proliferation of next-generation technologies such as IoT, cloud computing, artificial intelligence and augmented reality. According to the Economic Survey 2018-19, the telecom industry is expected to contribute around 8.2 per cent to the GDP by 2020 as it starts leveraging 5G technology and establishes a fully networked knowledge and services economy. However, tapping these emerging opportunities calls for network upgradation by telecom operators and setting up a large number of additional data sites backed by high-bandwidth fibre backhaul by infrastructure providers. This would require massive investments in the sector. Given the current weak financial position of the industry, a major part of this investment is expected to come from foreign investors. A large amount of foreign investment would also be necessary to catalyse the government's ambitious schemes such as the Smart Cities Mission, Digital India and BharatNet. With the government playing a proactive role in encouraging FDI inflow into the sector, the outlook for foreign investments seems to be positive.