

The telecom sector has witnessed a compound annual growth rate of 43.26 per cent over the past five years. With over 846.32 million subscribers, the size of the sector is second only to China's at present. This growth, to a large extent, has been driven by the private sector. Since 1994, when the sector was opened up to private players, it has been on a sharp growth trajectory. Today, the private sector accounts for more than 85 per cent of the total subscriber base.

It has managed to capture this share by capitalising on the opportunities presented by core services as well as associated industries like telecom infrastructure and equipment. The telecom tower industry is dominated by players like GTL Limited and Indus Towers. The telecom equipment space has also seen significant private participation with major foreign investments.

Private sector contribution to growth

As of July 2011, there were 14 operators providing wireless services and seven offering wireline services. Except Bharat Sanchar Nigam Limited (BSNL) and Mahanagar Telephone Nigam Limited (MTNL), the remaining 12 operators are 100 per cent privately owned companies.

In the wireless space, the private sector accounted for 88 per cent of the subscriber base with 714.28 million of the total 811.58 million users as of March 2011. In the wireline segment, however, public sector operators BSNL and MTNL dominated with a combined market share of over 82 per cent.

The private sector has been a key contributor to the growth in rural telephony. Bharti airtel leads this segment with 65.73 million wireless subscribers as of March 2011, followed by Vodafone Essar (51.62 million) and Idea Cellular (46.05 million). BSNL ranks fourth with 32.77 million rural subscribers.

In the wireline segment, the private sector's contribution has been skewed towards urban areas.

BSNL leads the rural wireline market with a market share of more than 70 per cent. Also, BSNL has the largest rural network, which extends to some of the remotest areas of the country with low population densities and, often, difficult terrain. Private operators have been reluctant to invest in these regions due to the high costs involved.

The telecom tower industry, which has played a key role in the growth of the sector as a whole, is also dominated by private players. As of March 2010, there were around 350,000 telecom towers in the country. Of these, about 41,250 towers were set up by BSNL and MTNL. Therefore, private players had a share of over 88 per cent of the tower infrastructure. These companies have invested Rs 2,000 billion in the telecom tower segment so far.

Trends in private investment

Over the years, there has been a clear shift in the private investment pattern. In 2005-06, the government contributed 83 per cent of the total investment in the sector, while private companies invested the rest. Over the years, the share of private investments has increased steadily. According to the Planning Commission, during the period 2007-08 to 2010-11, the total investment in the telecom sector was Rs 2,327 billion, in which private players had almost 81 per cent share. In 2011-12, private investments in the sector are expected to be Rs 970 billion, taking the total contribution of these companies during the Eleventh Plan to Rs 2,836 billion.

Private companies have used various sources of funding in the past few years. These include foreign investments in terms of foreign direct investment (FDI) as well as debt funding from international banks. Players in segments like telecom infrastructure and value-added services (VAS) have seen significant private equity (PE) investments. Operators have also taken the equity route to arrange funds for expansion. Most of the key players in the operator segment are listed entities.

FDI has emerged as an important source of funding for the Indian telecom sector. Since 2005, when the government increased the FDI cap from 49 per cent to 74 per cent, FDI inflow into the sector has increased sharply. The total cumulative FDI inflow into the telecom sector has been \$10 billion over the past decade. It witnessed a CAGR of 19.42 per cent from \$178 million in 2000-01 to \$1.05 billion in 2010-11.

The sector has also attracted equity investments from foreign players. Today, major global players like Singapore Telecommunications, Maxis Communications, Vodafone and Russia-based Sistema are controlling stakeholders in Indian telecom companies like BPL Mobile, Bharti airtel, Aircel and Shyam Telelink. New operators such as Swan Telecom (Etisalat DB), Unitech Wireless (Uninor) and S Tel have also divested stakes to international players.

Owing to the rapidly increasing valuation of telecom companies, the sector has become an investment destination for PE players. The aggregate value of PE deals during 2004-05 to 2009-10 stood at Rs 358.74 billion.

The deals involved some of the major players in the Indian market. For instance, investments of \$290 million by Warburg Pincus in 1999, \$210 million by CVC International in 2004 and \$2 billion by Temasek Holdings in 2007 helped Bharti airtel become the country's leading telecom operator.

Another example is the \$640 million infusion of growth capital by PE firm Providence Equity Partners in Idea Cellular. One of the largest PE investments in India to date, the fund helped finance the operator's expansion into 13 telecom circles and extend its reach to more than 75 per cent of the country.

Besides operators, almost all major telecom infrastructure players have received significant investments from PE players. In 2010, Quadrangle Capital Partners made a \$300 million investment in telecom tower company Tower Vision India. In the same year, the Macquarie SBI Infrastructure Fund bought an 11 per cent stake in Viom Networks for Rs 14 billion. Also, PE major New Silk Route has acquired a controlling stake in Ascend Telecom Infrastructure.

While the mobile segment is still a favourite with PE and venture capitalists, gradually other downstream opportunities like mobile VAS and telecom software are also coming up.

Being a private player-dominated sector, equity has a major share in the industry's investments. Several telecom sector players have listed themselves on the stock exchanges in the past few years. Some of the most successful initial public offerings (IPOs) include the listings of Bharti airtel in 2002, Reliance Communications (RCOM) in 2006 and Idea Cellular in 2008.

Several IPOs are expected in 2011-12 as well. Companies expected to launch their IPO in this year include VAS providers One97, Planet41, Mobi-Venture and Spice Mobility; handset manufacturer Micromax; tower companies like Indus Towers, Bharti Infratel, Reliance Infratel and Viom Networks; and operators like SSTL, which won telecom licences in 2008.

While equity has been the preferred investment route so far, debt financing has been increasing over the past two years. Given the nature and size of investments required, the trend of raising loans from domestic scheduled commercial banks and foreign institutions is gaining momentum. The year 2010-11 witnessed significant debt investments as operators financed their payouts for 3G and broadband wireless access (BWA) spectrum. Operators have also taken commercial loans to finance network expansion, and 3G and BWA rollouts.

The way forward

The Department of Telecommunications (DoT) has pegged the total investment in telecom infrastructure during the Twelfth Plan at Rs 5,000 billion. Of this, private companies are expected to contribute a massive Rs 4,000 billion.

Also, most private operators have already prepared their capex plans for 2011-12. Bharti airtel has earmarked a capex of \$1.5 billion for India and South Asia, including \$400 million for the company's tower business. Idea Cellular's capex for the year is Rs 40 billion, a substantial part of which would be used to increase the operator's 3G data coverage. RCOM has planned a capex of about Rs 15 billion for 2011-12.

Given that about 100,000 telecom towers will be needed to support the sector's growth over the next four-five years, investments by telecom tower companies are expected to increase significantly. The private sector is likely to contribute the majority of this.

Moreover, as per DoT, the telecom subscriber base would grow to 1,200 million during the Twelfth Plan from the current 846.32 million. 3G and BWA services are expected to account for 25 per cent of this user base in the Twelfth Plan.

In addition, with 3G networks under development and BWA network rollout expected in the near future, the sector will continue to attract investments. Operators are also awaiting the auction of additional spectrum as the current capacity is inadequate for sustaining operations and maintaining the quality of service. These factors will generate investment demand in the sector going forward.

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