CHAPTER 3

HISTORY AND GROWTH OF INDIAN TELECOM INDUSTRY AND THE PROFILE OF THE STUDY UNITS

3.1 INTRODUCTION

In the present chapter it is attempted to provide a brief sketch on the history and growth of telecom industry in India and a bird’s eye view on the profile of the study units.

3.2 TELECOMMUNICATION

The word telecommunication was adapted from the French word telecommunication. It is a compound of the Greek prefix tele- meaning ‘far off, and the Latin communicare, meaning ‘to share’. The French word telecommunication was coined in 1904 by French engineer and novelist Edouard Estaunie. Telecommunications is the transmission, between or among points specified by the user, of information of the user's choosing, without change in the form or content of the information as sent and received.

3.2.1 World Telecom Industry

World telecom industry is an uprising industry, proceeding towards a goal of achieving two third of the world's Telecom connections. Over the past few years information and communications technology has changed in a dramatic manner and as a result of that World Telecom industry is going to be a booming industry.
Substantial economic growth and mounting population enable the rapid growth of this industry. The world telecommunications market is expected to rise at an 11 percent compound annual growth rate at the end of year 2010. The leading telecom companies like AT&T, Vodafone, Verizon, SBC Communications, Bell South, and Qwest Communications are trying to take the advantage of this growth. These companies are working on telecommunication fields like broadband technologies, EDGE (Enhanced Data rates for Global Evolution) technologies, LAN-WAN inter networking, optical networking, voice over Internet protocol, wireless data service etc.

Economical aspect of telecommunication industry: World telecom industry is taking a crucial part of world economy. The total revenue earned from this industry is 3 percent of the gross world products and is aiming at attaining more revenues. One statistical report reveals that approximately 16.9% of the world population has access to the Internet.

Present market scenario of world telecom industry: Over the last couple of years, world telecommunication industry has been consolidating by allowing private organizations the opportunities to run their businesses with this industry. The Government monopolies are now being privatized and consequently competition is developing.

3.2.2 Indian Telecom Industry

Indian Telecom industry is one of the fastest growing telecom markets in the world. The Indian telecommunication industry, with 638 million telephone (landline and mobile) subscribers and 584 million mobile phone connections as of March 2010. India is ranked third worldwide in terms of having the largest telecommunication network, after China and USA. With
the ongoing investments into infrastructure deployment, the country is projected to become the second largest telecom market globally in next few years. In telecom industry, service providers are the main drivers; whereas equipment manufacturers are witnessing growth and decline in successive quarters as sales is dependent on order undertaken by the companies.

Indian Telecommunications Service (ITS): The Indian Telecommunications Service, widely known as ITS, is an organized civil service of Government of India. The service was created to meet the technical and managerial functions of the government in areas related to telecommunications. The Department of Telecommunications (DOT) had been run for years by this permanent cadre of technical civil servants called the Indian Telecom Service (ITS).

Telecommunication sector in India can be divided into two segments namely Fixed Service Provider (FSPs) Fixed line services consist of basic services, national or domestic long distance and international long distance services. The state operators (BSNL and MTNL) account for almost 90 percent of revenues from basic services.

Cellular services can be further divided into two categories: Global System for Mobile Communications (GSM) and Code Division Multiple Access (CDMA). The GSM sector is dominated by Airtel, Vodafone, and Idea Cellular, while the CDMA sector is dominated by Reliance and Tata Indicom.

3.3 GROWTH OF INDIAN TELECOM INDUSTRY

Telecom industry in India has undergone a revolution in the recent years. The country is ranked second worldwide in terms of having the largest telecommunication network, after China. With the ongoing investments into
infrastructure deployment, the country is projected to see high penetration of Internet, broadband and mobile subscribers. The Indian Telecom Analysis (2008-2012) report by RNCOS Industry Research Solutions shows that mobile telecom segment has surpassed all other segments in the Indian telecom sector. (The mobile telecom market is forecast to grow at a compound annual growth rate of around 15 percent between 2009-10 and 2013-14.) The report also indicates that the advance of services such as Internet Protocol television (IPTV) and 3G are fuelling the growth of the Indian telecom sector. Additionally, with 3G auctions scheduled for February 13, 2010 is expected to set in motion the quick adoption of 3G-enabled handsets. Indian telecom companies are following the trend of global telecom companies such as France Telecom, AT&T and Vodafone to capitalize on the excitement in the mobile applications space mobile service provider Aircel has partnered Infosys Technologies to launch the first mobile application sector in the Indian telecom sector. Also, Airtel is considering partnering software company IBM to launch app stores in 2010. This signals the increasing recognition among operators in the Indian telecom sector that the way ahead for mobile technology lies with independent developers. In another development in the Indian telecom sector, Tata Teleservices Ltd (TTSL) has partnered Novatium Solutions Ltd to launch what is said to be the country’s first cloud computing service over wireless broadband, ‘Nova Navigator’. The Navigator is being described as a ‘zero maintenance’ access device with features such as 3G support and plug and play printer support and multimedia support. In a development that will provide fundamental benefits to services offered by the Indian telecom sector, Tata Communications and China Telecom Corp are to jointly build a 5004cm optical fiber cable network between the two countries in 2010. Along with the investments of Tata Communications in other subsea cable investments, the India-China Terrestrial Cable will provide high-speed connectivity between Asia and Europe.
3.4 REVENUE AND GROWTH

The total revenue in the telecom service sector was Rs. 86,720 crore in 2005-06 as against Rs. 71,674 crore in 2004-2005, registering a growth of 21%. The total investment in the telecom services sector reached Rs. 200,660 crore in 2005-06, up from Rs. 178,831 crore in the previous fiscal. Telecommunication is the lifeline of the rapidly growing Information Technology industry. Internet subscriber base has risen to 6.94 million in 2005-2006. Out of this 1.35 million were broadband connections. More than a billion people use the internet globally. Under the Bharat Nirman Programme, the Government of India will ensure that 66,822 revenue villages in the country, which have not yet been provided with a Village Public Telephone (VPT), will be connected. However doubts have been raised about what it would mean for the poor in the country. It is difficult to ascertain fully the employment potential of the telecom sector but the enormity of the opportunities can be gauged from the fact that there were 3.7 million Public Call Offices in December 2005 up from 2.3 million in December 2004. The value added services (VAS) market within the mobile industry in India has the potential to grow from $500 million in 2006 to a whopping $10 billion by 2009.

3.5 TELECOM REGULATORY AUTHORITY OF INDIA (TRAI)

The entry of private service providers brought with it the inevitable need for independent regulation. The Telecom Regulatory Authority of India (TRAI) was, thus, established with effect from 20th February 1997 by an Act of Parliament, called the Telecom Regulatory Authority of India Act, 1997. The main aim is to regulate telecom services, including fixation/revision of tariffs for telecom services which were earlier vested in the Central Government. The TRAI Act was amended by an ordinance, effective from 24 January 2000, establishing a Telecommunications Dispute Settlement and Appellate Tribunal (TDSAT) to take over the adjudicatory and disputes
functions from TRAI. TDSAT was set up to adjudicate any dispute between a licensor and a licensee, between two or more service providers, between a service provider and a group of consumers, and to hear and dispose of appeals against any direction, decision or order of TRAI.

3.6 INDIAN GOVERNMENT ACTS FOR REGULATION OF TELECOM INDUSTRY

The various telecom related acts by the Department of Telecommunications India are:

• Indian Telegraph Act 1885: This act empowered the government of India to take control of the existing telegraph lines and lay down the necessary infrastructure for further expansion of telecommunications in India.

• Indian Telegraph (amendment) Rules 2004: This act set the guidelines for the set up and development of public telecom services in India.

• Indian Wireless Act 1993: According to this act wireless telecom services could be set up only after due licensing from the telegraphy authority of India.

• Information Technology Act 2000: The act defines the information technology based communications in India. Telecom Industry of India was shown e-commerce way through this act in a legal manner.

• Communication Convergence Bill 2001: This bill declared the establishment of Communications Commission of India to regulate the transfer of all form of communication including broadcasting, telecommunications and multimedia.
3.7 PROFILE OF SELECTED TELECOM COMPANIES IN INDIA

3.7.1 Aircel Cellular Ltd.

Aircel is a mobile phone service provider in India. It offers both prepaid and postpaid GSM cellular phone coverage throughout India. Aircel is a joint venture between Maxis Communications of Malaysia and Apollo Hospital Enterprise Ltd., of India. It is India's fifth largest GSM mobile service provider with a subscriber base of over 27.7 million, as of October 31, 2009. As on date, Aircel is present in 18 of the total 23 telecom circles and with licenses secured for the remaining 5 telecom circles, the company plans to become a pan-India operator by 2010.

Aircel commenced operations in 1999 and became the leading mobile operator in Tamil Nadu within 18 months. In December 2003, it launched commercially in Chennai and quickly established itself as a market leader - a position it has held since. Aircel began its outward expansion in 2005 and met with unprecedented success in the Eastern frontier circles. It emerged a market leader in Assam and in the North Eastern provinces within 18 months of operations. Till today, the company gained a foothold in 18 circles.

3.7.2 Idea Cellular Limited

Idea Cellular is a wireless telephony company operating in all the 22 telecom circles in India based in Mumbai. It is the 3rd largest GSM Company with over 67 million subscribers in India behind Airtel and Vodafone and ahead of state run player BSNL. The company is part of the Aditya Birla Group. It provides wireless and long distance voice and internet services to consumer and enterprise markets. IDEA Cellular is a publicly listed company, having listed on the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE) in March
2007. A frontrunner in introducing revolutionary tariff plans, IDEA Cellular has the distinction of offering the most customer friendly and competitive Pre Paied offerings, for the first time in India. The company has operations in Delhi, Himachal Pradesh, Rajasthan, Haryana, Uttar Pradesh (W) & Uttaranchal, Uttar Pradesh (E), Madhya Pradesh & Chattisgarh, Gujarat, Maharashtra & Goa, Andhra Pradesh and Kerala with the planned expansion into Mumbai, Bihar & Jharkhand.

The company was incorporated as Birla Communications Limited on March 14, 1995 and granted a certificate of commencement of business on August 11, 1995. The following year, the company entered into a joint venture with Grasim Industries and the global telecom giant AT&T. The same year, its name was changed to Birla AT&T Communications Limited. A merger with Tata Cellular Limited took place in 2000. In 2002, the company created the brand 'Idea' and changed its name to Idea Cellular Limited. In 2006, the Tata Group transferred all its shares to the Aditya Birla Group and the group became the largest shareholder in the company. In 2007, Idea came with an IPO and got listed on the bourses - the same year it reached the subscriber base of 20 million.

3.7.5 Reliance Telecom Limited

Reliance Telecom Limited provides cellular services in India. Reliance Communications formerly known as Reliance Infocomm, along with Reliance Telecom and Flag Telecom, is part of Reliance Communications Ventures (RCoVL). Reliance Telecom Limited (RTL) is a wholly-owned subsidiary of the Reliance Communication Limited, a member of reliance ADA group. Reliance ADA group's flagship company. RTL has undertaken a major expansion and increased its coverage to 6300 towns. This has enabled RTL to significantly scale up subscriber base to 11.5 million as of march 31, 2009. RTL.
The Equity Shares of RCOM are listed on Bombay Stock Exchange Limited and National Stock Exchange Limited. RTL operates in Madhya Pradesh, West Bengal, Himachal Pradesh, Orissa, Bihar, Assam, Kolkata and Northeast offering GSM services. According to National Stock Exchange data, Anil Ambani controls 66.75 percent of the company, which accounts for more than 1.36 billion shares.

Reliance Communications Limited founded by the late Shri Dhirubhai H Ambani (1932-2002) is the flagship company of the Reliance Anil Dhirubhai Ambani Group. RTL began its operation in 1997. The company was incorporated in 1994 and is based in Navi Mumbai, India. As of September 8, 2006, Reliance Telecom Limited operates as a subsidiary of Reliance Communications Ltd.

3.7.6 Tata Communication Ltd.

Tata Communications Limited Formerly known as Videsh Sanchar Nigam Limited. It is a leading global provider of a new world of communications. The Group's principal activity is to provide global communication solutions. The Group operates in three segments: Wholesale Voice, Enterprise and Carrier Data and Others. Wholesale Voice includes international and national voice services; Enterprise and carrier data includes corporate data transmission services like international private leased circuits (IPLC), frame relay (FR), internet leased line circuits (ILL) and national private leased circuits (NPLC). The Group operates in India, the United Kingdom, Saudi Arabia, the United States of America, Singapore, United Arab Emirates and Other countries. Tata Communications Limited is listed on the Bombay Stock Exchange and the National Stock Exchange of India and its ADRs are listed on the New York Stock Exchange. (NYSE: TCL).
In 1986, VSNL was formed as a Government of India-owned company. In 1996 Tata Teleservices is established to spearhead the group's foray into the telecommunication sector. In the year 2000, VSNL was the first Indian PSU to be listed in the NYSE. Tata Indicom, the umbrella brand for Tata telecom services, starts operations. Later in 2002, Tata Group acquired controlling stake in VSNL which was later expanded to 46%. In 2008, VSNL was renamed as Tata Communications Limited. The year 2009, Tata Communication and Tyco Telecommunication complete TGN-intra Asia cable system.

3.7.8 Vodafone India Limited

Vodafone Essar, formerly known as Hutchison Essar is a cellular operator in India that covers 23 telecom circles in India based in Mumbai. Vodafone Essar is owned by Vodafone 67% and Essar Group 33%. It is the second largest mobile phone operator in terms of revenue behind Bharti Airtel, and third largest in terms of customers. Vodafone crossed 100 million subscribers in India as on March 2010.

Despite the official name being Vodafone Essar, its products are simply branded Vodafone. It offers both prepaid and postpaid GSM cellular phone coverage throughout India with good presence in the metros. It is among the top three GSM mobile operators of India.

In 1992 Hutchison Whampoa and its Indian business partner established a company that in 1994 was awarded a license to provide mobile telecommunications services in Mumbai and launched commercial service as Hutchison Max in November 1995. In 2006, it announced the acquisition of a company (Essar Spacetel — A subsidiary of Essar Group). In February 2007, Hutchison Telecom announced that it had entered into a binding agreement with a subsidiary of Vodafone Group Pic to sell its 67% direct and indirect
equity and loan interests in Hutchison Essar Limited for a total cash consideration (before costs, expenses and interests) of approximately US$11.1 billion or HK$87 billion.

3.7.9 Bharti Airtel Limited

Bharti Airtel Limited, a group company of Bharti Enterprises, is among Asia's leading integrated telecom services providers with operations in India, Sri Lanka and Bangladesh. It is known for being the first mobile phone company in the world to outsource everything except marketing and sales. Bharti Airtel Limited is the largest cellular service provider in India, with more than 135 million subscriptions as of May 2010. It is formerly known as Bharti Tele-Ventures LTD. (BTVL) is an Indian company offering telecommunication services in 18 countries. The services provided by the company are Mobile Services, Telemedia Services, Enterprise Services, Digital TV Services, and Passive Infrastructure Services.

Bharti is now the world's third-largest, single-country mobile operator and Fifth-largest integrated telecom operator. It offers its TELECOM services under the Airtel brand and is headed by Sunil Bharti Mittal. Providing GSM services in all the 23 circles, Airtel was the first private player in telecom sector to connect all states of India.

Bharti Airtel Limited ('Bharti AirteF or 'the Company') was incorporated on July 7, 1995 under the laws of India for promoting investments in telecommunication services. Airtel is the First private operator to offer fixed line telephony in June 04, 1998. In February 18, 2002 the company became a public limited company in India. In March 30, 2005 it grows to first telecom company to have an all India mobile footprint (Presence in all 23 telecom circles in India). In 2000, Bharti acquired Bharti Telenet. The Group's principal shareholders at March 31, 2009 included Bharti Telecom Limited
and Singapore Telecommunication International Private Limited. With effect from April 24, 2006, the name of the Company has been changed from Bharti Tele-Ventures Limited ('BTVL') to Bharti Airtel Limited.

3.7.10 Uninor

Uninor is an Indian mobile network operator based in Gurgaon, India. The company holds Unified Access Service (UAS) licences to offer mobile telephony services in each of India’s 22 telecom circles, and has received spectrum to roll out services in 21 of these (excluding Delhi). The company is a joint venture between Telenor Group, a telecommunications company headquartered in Oslo, Norway, and Unitech Group, an Indian real estate company. Telenor owns a controlling majority stake in the company (67.25%), which has been branded Uninor in the Indian market.

Uninor offers mobile voice and data services based on the GSM technology, currently on a 4.4 MHz spectrum. Uninor services are commercially available in 13 circles across India. With a ‘value for money’ proposition in the market, Uninor targets youth and other communities within the Indian mass market. As of December 2011, Uninor has 36 million customers and a total workforce of 17,500 people. The company has more than 22,000 partners in India. Uninor products and services are available from a more than 375,000 retail outlets serviced by 1,900 distributors all over the country.

The company Unitech Wireless was until 2009 a subsidiary of Unitech Group, holding a wireless services licence for all 22 Indian telecom circles since 2008. In early 2009, Unitech Group and Telenor agreed to enter a joint venture where Telenor Group would inject fresh equity investments of
INR 61.35 billion into Unitech Wireless to take a majority stake in the company. This was operating capital invested directly in Unitech Wireless by Telenor Group.

Telenor Group conducted these investments in four tranches, and subsequent to approvals from the Indian Foreign Investment Promotion Board (FIPB) and the Cabinet Committee of Economic Affairs (CCEA) took 67.25% ownership of Unitech Wireless. In September, the company announced its brand name as Uninor.

Uninor launched its first eight circles on 3 December, 2009, after completing one of the world’s largest GSM Greenfield launches which was also one of the fastest telecom roll-outs ever in India. The brand was built around an ambition to serve the young, aspiring India. Six months later, five additional circles were launched including metros like Mumbai and Kolkata, making the brand commercially operational in 13 telecom circles of India. These circles together account for over 75% of India’s population.

Uninor has facilitated rapid scaling of the company through a lean operation model, where a large share of the network infrastructure is outsourced to business partners. With a relatively recent infrastructure in place, Uninor operates one of the most modern GSM networks in the country. Uninor’s modern equipment has enabled it to introduce targeted offerings and serve a large audience with limited spectrum. As the first mobile operator in India, Uninor introduced Dynamic Pricing, a concept that gives consumers discounts that are based on current network traffic at an individual site and change with location and time. About 40% of Uninor’s customers are on a Dynamic Pricing plan.

Over the summer of 2010, the company further simplified its strategy with a focus on three core areas – excellence in mass market
distribution, basic services and cost efficient operations. Changes were also made to the product mix and marketing communication – making them simpler, more direct and clearly positioning Uninor as an affordable mass market service.

Uninor has grown from 0 to 36 million customers (as of December 2011) within less than two years, and is now emerging as the most successful of the new entrants that obtained licenses in 2008. The company has more than double the subscribers of all of the other entrants combined.