

# INDIAN TELECOM INDUSTRY

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Telecom is the fastest growing sector in India. Tariff reduction and decline in handset costs have played a significant role to gain popularity amongst the end-users.

The telecom sector constitutes of 3 segments:

1. Wireless
2. Wireline
3. Internet services.

Out of all key components, India is the second-largest marketplace of internet users. Further to above department of Telecommunications has notified the PLI Scheme for Telecom and Networking products on 24<sup>th</sup> February 2021 with financial outlay of USD 1.6 billion (INR 12,195 Crore), over five years for Telecom and Networking Products. PLI Scheme in Telecom and Networking Products will make India a global hub of manufacturing telecom equipment including Core Transmission Equipment, 4G/5G Next Generation Radio Access Network and Wireless Equipment, Access & Customer Premises Equipment (CPE), Internet of Things (IoT) Access Devices, Other Wireless Equipment and Enterprise equipment like Switches, Routers etc.



The investor will be incentivized for incremental sales up to 20 times the committed investment enabling them to reach global scales and utilize their unused capacity and ramp up production. The core component of this Scheme is to offset the huge import of telecom equipment worth more than USD 6.8 billion (Rs. 50 thousand crore) and reinforce it with “Made in India” products both for domestic markets and exports. The target is to Make India a preferred global manufacturing destination for telecom products and making India a net exporter of telecom and networking products.

It is estimated that full utilisation of the Scheme funds is likely to lead to incremental production of around USD 32 billion (INR 2.4 Lakh crore) with exports of around USD 27 billion (INR 2 Lakh crore) over 5 years. It is also expected that Scheme will bring investment of around USD 409 million (INR 3,000 crore) and generate huge direct and indirect employment. Let us understand the significance of the Indian telecom sector in recent years.

## Indian Telecom Sector: An Overview

India has the second-largest subscriber base of around 1.20 billion, users after China. The primary goal is to provide affordable services to consumers. The Indian government has enabled secure access to the telecom authorities due to high market demand as a result; the GDP has gone up and opened the floodgates for employment at the same time in our country. The government of India has adopted the National Digital Communication policy, in September 2018. Also, 100% of the FDI is permitted for Telecom Services with automatic approval upto 49% and Government approval beyond 49%.

## Market Overview

As per Telecom Regulatory Authority of India, the country remained as the fastest growing network for app downloads on Google Play store. The app and ecommerce revolution has made telecom sector more a need rather than a want. Further, its goal is to add 50 crore new internet users in the coming years. With increasing customer base every day; it creates an opportunity for new businesses in the long run. India is expected to launch 5G services by FY 2023. The mobile wallet transactions have increased at a rapid pace in the past few years booming telecom sector. It is all about speed and telecom sector is catering such need.

## Market Trends

India has witnessed a severe change in the telecom sector after the entrance of Reliance Jio in the market. Everyone is familiar with the latest market trends. Existing telcos have decided to counter or minimize the Jio effect due to heavy losses in revenue. Due to high competition, the telecom service providers are looking to implement different strategies to meet their requirements. Vodafone Idea <VIL> decided to merge enabling India's largest telecom merger. Reliance Jio has become the largest telecom company in terms of customer base..

At the same time, Airtel & reliance Jio are ready to launch 5G smartphones capabilities to drive mass consumption of wireless broadband service. 5G devices are priced around USD 1000 (INR 70,875) globally in India they are priced as low as USD 200 (INR 14,000).



## Technology- As A Game Changer

To implement 5G services, It is essential to upgrade the structure on root level. India is in the advanced stage of testing 5G network. Although, India will roll out 5G with a minimum time lag as compared to the global leaders. It is possible that the operators need to pay the spectrum cost over a period of time; however, the initial payment should be on the lower side. Let us examine the various factors which can affect or support the 5G services in the coming future:

- Telcos needs to improve its subscriber profiling across other categories to monetize customer asset. It helps them to access secure payments for e-commerce and entertainment.
- 5G services will impact education and business in much more profound ways than we are expecting. It is essential for the digital development of the economy.
- It is possible that 5G is launched as a premium service in the beginning to recover revenue loss incurred by the telcos.
- The coverage radius will shrink at the high- frequency band to implement 5G network; hence, telcos have to use the existing spectrum and tower assets for voice to ensure decent connectivity.
- The spectrum price will remain sober at the beginning with the emergence of the 5G network.

## Growth Drivers

With the advancement of technology, the government is focusing on Digital India. Many telecom operators are rolling out services in the education and health sectors. Customers are subscribing for the learning facilities and payments due to the government's drive for cashless India. Although, remote areas have a lack of health facilities giving rise to mHealth drive. This area needs monitoring reduced healthcare cost, wider reach, and reduced burden of administrative expenses.

Indian telecom sector poses a challenge as infrastructure needs to scale up to 5G with legitimate planning. Indian IoT market is set to grow up to USD 16.7 billion (INR 1,18,428 crore) by 2022. Telcos needs to adopt an innovative approach to provide quality services to its consumers. Apart from this, there are several factors, like cloud storage, security, and data privacy, which needs attention.

Despite challenges, India is set to grow and move into a sustainable position due to the large population in our country and massive demand.

Most of the world telecom industry leaders are keen to expand or set up manufacturing base in India and are positive with the kind of incentives proposed in the Scheme. The companies like Ericsson Sweden and Nokia Finland are keen to expand their existing operation in India for global supply chain. Global telecom companies like Samsung South Korea, Cisco USA, Ciena USA, and Engineering Manufacturing Services (EMS) companies like Jabil USA, Foxconn Taiwan, Sanmina USA & Flex USA have shown interest to set up manufacturing in India for Telecom & Networking Products for domestic as well as export markets.

Indian manufacturers like VVDN Technologies Gurugram, Dixon Noida, HFCL, Coral Telecom & Sterlite have also shown interest in the Scheme. An extensive outreach program with the support of Invest India team for the Scheme is being planned, covering - One to one meeting with potential investors; Participation in global outreach events organized by industry associations; Webinars with Consultants & Embassy officials, Law firms/banks/research organisations/industry associations; Creation of collaterals/ flyers for the scheme in different languages; Microsite for the scheme on Invest India website.; Separate interactive website for Applications as well as selected vendors for the entire Scheme interface; Support translation of scheme into multiple languages.

## Major Players

There are three major players in the telecom sector in India - Reliance-Jio, Vodafone – Idea and Airtel where Jio has received major funding in Covid lockdown from Facebook and Private equity investors.

Reliance Jio has entered the Indian telecom sector like a storm. Big players like Airtel, Vodafone, and Idea are finding ways to cope up with the existing challenge. Revenue models have demolished. Current voice and data plans have gone down post-launch of Reliance Jio 4G services in the country. No industry has witnessed such a drop in revenues over a short period in India.

Reliance Jio is taking over its rivals looking at the latest trend of subscribers. It has added around millions of subscribers in pandemic.

## Investment Opportunities

Telecom service providers are still not able to monetize their subscriber base in providing proper access and connectivity in some parts of the country. As a result, the government is likely to extend support up to a certain level. Let us find out more details further:

- The government has introduced the National Telecom Policy 2018. It aims at investing worth USD 96.74 billion (INR 709,580 crore) by 2022 in the telecom sector.
- The digital India program launched by the Indian government helps to connect healthcare and retail sectors through the Internet.
- 100 percent FDI is permitted to infrastructure providers to ensure electronic mail and voice mail services in the telecom sector.
- PLI Scheme: The scheme is investment linked which will enable the vendors to invest in backward integration thereby increasing the value addition in country. Global vendors will bring in their component suppliers and develop ancillaries. The scheme has a special category for MSME recognising the fact that MSMEs play an important role in the telecom manufacturing eco system. For MSMEs, one percent (1%) higher incentive is proposed in initial 3 years. Minimum Investment threshold for MSME has been kept at Rs. 10 crore.

The above initiatives taken by the government helps to improve the infrastructure of the telecom industry. Department of Telecommunication <DoT> has launched a web portal to share information on mobile towers and EMF emission compliances. It is essential to bring stability in the telecom sector; however, telecom authorities need to adhere to government policies to implement them.

Apart from this, Telcos may need support from the government on the following factors

- Setting up transparent pricing levels.
- The spectrum price should be realistic.
- There will be a reduction in the revenue share or usage charge.
- A decline in the GST price.

### Road Ahead

The telecom industry has connected every part of India to the Internet. More than a billion people are using a 4G network across the world; out of which more than 1 crore subscribers belong to the Indian market. Telecom operators have started to invest in newer technology to upgrade their services. The number of internet subscribers in the country will become upto to 0.829 billion (82.9 crore) by 2021. The government plans to develop 100 smart city projects with the help of <IoT>.

Further, the Indian government is also running various programs like Digital India, Skill India, and Bharat Net on mobile and broadband networks for a healthy ecosystem. Telecom is expected contributes about 8.2 percent of the total GDP of India. Bharat Net aims Internet connectivity to villages in the border and Naxal-affected states, the government has selected Hughes Communications India to connect 5,000 village panchayats in the border and Naxal-affected states as well as in island territories with satellite broadband under the BharatNet project by 2021. The government aims to connect all 0.25 million (2.5 lakh) village panchayats in the country with high-speed broadband services by August 2021.

### Conclusion

Telecom sector has played an essential role in the development of the Indian economy. India has come a long way as there was no internet connectivity in the early' 90. Currently, we cannot imagine our lives without the Internet and mobile. With 5G knocking on the door, the telecom sector has great potential to transform our lives and way of thinking through changes brought in areas of education technology, health delivery, business, services and IOT in manufacturing.

The Telecom business is growing strong in Covid, as more processes are going to work from home and face to face meetings being reduced and Video calls over the internet being a new mode of communication. Telecom and its allied sector are bound to grow irrespective of Covid.

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**With Best Regards,**

**Team JPC**

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# J P Chawla & Co. LLP

Chartered Accountants

**New Delhi office:**

43 Darya Ganj,  
New Delhi - 110002  
INDIA

**Noida office:**

Third Floor, B-151, Sector 6,  
Noida - 201 301 (U.P.), INDIA  
Phone: +91-120-4573207  
General Email: info@jpc.co.in

**Main Partners Hand Phone & Email**

Rajat Chawla  
J.P. Chawla  
Richa Chawla

+91-9871494499 | rajatchawla@jpc.co.in  
+91-9811028918 | jpchawla@jpc.co.in  
+91-9990509709 | richajuneja@jpc.co.in

*For further information, please email your details to [rajatchawla@jpc.co.in](mailto:rajatchawla@jpc.co.in) or call +91-9871494499.*



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