

## **AN IMPACT OF REVENUES OF OTHER TELECOM OPERATORS DUE TO RELIANCE JIO'S ENTRY**

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### **Abstract**

Reliance Jio enters the telecom market when there are three established, well entrenched incumbent carriers – BhartiAirtel, Vodafone and Idea Cellular. They collectively control nearly 80% of the pan-india GSM customer base around 75% of the revenue market share. Only 25% of India's mobile phone subscriber use smart phones out of which 4G base is about 10-15%. Reliance JioInfocommLtd's entry will be "credit negative" for incumbents in the telecom space and will also speed up consolidation, according to a Fitch Ratings report. The report said smaller telcos are likely to be impacted most and only a handful will emerge out of the shakedown. It predicted an increase in pressure on tariffs at a time when capital expenditure for incumbents is bound to increase with the upcoming spectrum auction. The rating agency also predicted a further dip in data tariffs and an increase in capital expenditure to provide an ecosystem for 4G services.

**Keywords: GSM Customer base; Spectrum; Third keyword; Fourth keyword; Fifth keyword.**

### **1. Introduction**

In June 2010, Reliance Industries (RIL) bought a 96% stake in Infotel Broadband Services Limited (IBSL) for 4,800cr. Although unlisted, IBSL was the only firm to win broadband spectrum in all 22 zones in India in the 4G auction that took place earlier that year. Later

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continuing as RIL's telecom subsidiary, Infotel Broadband Services Limited was renamed as Reliance JioInfocomm Limited (RJIL) in January 2013.

In June 2015, Jio announced that it will start its operations all over the country by the end of 2015. However, four months later in October 2015, the company's spokesmen sent out a press release stating that the launch was postponed to the first quarter of the financial year 2016-2017. Reliance JioInfocomm Limited, doing business as Jio, is a LTE mobile network operator in India. It is a wholly owned subsidiary of Reliance Industries headquartered in Mumbai, that provides wireless 4G LTE service network (without 2G/3G based services) and is the only 100% VoLTE (Voice over LTE) operator in the country, with coverage across all 22 telecom circles in India. The services were first beta-launched to Jio's partners and employees on 27 December 2015 on the eve of 83rd birth anniversary of late Dhirubhai Ambani, founder of Reliance Industries, and later services were commercially launched on 5 September 2016.

## **2. Reliance Jio's Market Share:**

Mukesh Ambani made re-entry into the Telecom industry. Now his primary goal is to accumulate 10 crores subscribers to Reliance Jio. Reliance Industries Limited is promoting Reliance Jio 4G services across the country.

All the telecom operators are fearing of their market share in the country due to Jio. Recently, Reliance Jio announced a free offer to its users. The users are going to get 90 days unlimited data and voice services for free. But, Jio is claiming that it is experimenting its services. All the leading telecom operators decreased their data tariffs by more than 40 percent. The telcos are bearing heavy losses with the entry of Jio 4G network. Nearly 3/5th of the market share is shared by Vodafone, Airtel and Idea networks. If Jio reaches its target of acquiring 10 crores subscribers, these networks' market share is greatly reduced. The telecom operators complained on Jio's offers to TRAI. Reliance also complained TRAI that other cellular companies are not redirecting the calls from Jio's network and creating call drops intentionally.

The companies are spending thousands of crores on expanding their network. Jio started its operations with a capital of 1.35 lakh crores. Mukesh Ambani is flooded with heavy profits in the petroleum refining business. He is reinvesting his profits on expanding Jio's network.

Leading handset companies like Panasonic and Micromax signed an MoU with Reliance Jio. The customers can avail all offers from Jio and they get a JioSim on the purchase of new mobile handset. Samsung and LG also joined their hands with Jio's network. YU smartphone users can also avail all the benefits of Jio 4G network. With the Jio'ssim, the users get HD Voice calls, Video calling, SMS , Data services free for a period of 90 days.

After announcing heavy tariff reductions by the companies, the revenue is greatly decreased. Some companies are not able to withstand the heavy competition. We are hearing the merger news of Idea Cellular networks and Vodafone network in the recent times. Aircel also started its merger with RCom , according to sources. Let's see the future of Telecom sector with the entry Reliance Jio in the Indian Market. Market analysts are expecting that, Reliance Jio's tariffs after free period is a key factor. If the tariff rate is high, the users move to their old network again.

### **3. Analysis by an Investment Manager.**

After some back of the envelope quick calculations, under this tariff plan which they have offered to all, the first three months are free including concessions given to students, they have set a target acquisition target of 10 crore for his team, which they acquire aggressively under this free offerings say by December end or January-February FY17.

In that kind of situation, probably have in the very first year of operation which is the full year of operation which is 2017-18, a 10 crore customer base. Now on a 10 crore customer base, if you look at even the voice-free and take data into account and assume that some of the large data users may shift over to this particular network, they would probably end up having a revenue book of 10 crore customers at Rs 2500 crore per month which is Rs 30,000 crore per annum. Now if this offering is to succeed in FY18, and probably with the customer base doubling, you are talking of a revenue base of between Rs 30,000 crore and Rs 60,000 crore in FY18.

On that revenue base if you calculate EBITDA margin of 45%, 250% whatever way you want to take it, it would be somewhere around Rs 27,000-30,000 crore kind of EBITDA performance for the company. Take out the interest and depreciation out of it, I think the company would be in

profits in the first year itself. If they end up making a profit of between Rs 10,000 crore and Rs 12,000 crore in the first year, probably it would contribute to somewhere around 35% of current profits of Reliance itself and that is there you are talking of big game changer happening in this business through this business.

#### **4. Conclusion :**

India just received what can be considered a “best of both the worlds” in the form of Mukesh Ambani’s announcement of free calls and texts over the JIO network and the elimination of any roaming fee. This model has been prevalent in the United States and has worked beautifully for its consumers, the only downside being the exorbitant rentals. Reliance Jio customers get benefits of no roaming charges, free night-time data and even free calls and messages all day long, but with the rock bottom prices that the country has never seen before.

All current mobile operators offer convoluted tariffs on calls and messaging, with various segments such as within the same network, from the subscriber’s network to any other cellular network and then from subscriber’s network to landline. Messaging tariffs have also three segments and factor in roaming and you’ll be completely clueless on how much are you actually paying. For the last few years, many of us have left our billing to the mercy of the carriers, blindly trusting them to charge us what is right. We live in times when people prefer Skype or Facetime over calls and messaging on Facebook or Whatsapp over the traditional SMS, Reliance has made an incredibly smart move to ration the power of its telecom network. While the urban and heavy users with the latest smartphones would gradually start moving to video calling apps (for their immersive experience and no cost), this would leave a good chunk of the network’s capacity to handle actual voice and SMS data which can be expected from those who are still using the traditional means.

With free calls and messages, things are bound to heat up as the consumer always wants to spend as little as possible and get as much as he can for it. With Airtel, Vodafone and Idea, the three leading telecom operators, charging users for everything and still giving what can be considered mediocre (at best) service, the announcement is going to either drive everyone’s tariffs down into the ground or it will push the existing operators to seriously beef up the quality of their service.

At the end of the day, it is a much needed win-win for the consumer who had been getting jack-hammered by the telecom operators charging us plenty of money for poor service.

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