



Impact of Reliance JIO on the Indian Telecom Industry

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ABSTRACT

Telecom industry is under severe competition where number of players are using different marketing strategies to lure and retain the customers. In the age of digital technology, this war is producing benefits to the customers. The present study tends to produce the impact of launching of JIO in the Indian Market on the customers and other market players. To study this, references and data sources have been analyzed, and the overall impact on the market condition, customer base and profitability of the companies have been taken into consideration in a broader manner. Besides this, the temporary impact of the JIO in the present conditions as well as the future prospects has also been analyzed to understand the impact purposefully.

Keywords-- Telecommunication Industry, TRAI, Information and Communication Technology, ARPU, Telcos

I. INTRODUCTION

The year 2003 saw the turbulence when Reliance India Mobile “Monsoon Hungama” was launched, which devastated the barriers of high cost outgoing calls, while made the incoming calls free and also introduced a low-cost-entry point of mobile telephony for every Indian, notwithstanding their economic standing. Almost after about one and a half decades, Jio, backed by Mukesh Ambani, brought tremor in the entire Indian telecom industry. Reliance JIO is being broadcasted as one of the world’s largest start-up, with an initial investment of around Rs.1.5 Lakh crore, and it is one of the biggest green-field digital enterprises. This journey is almost six years in creation, with Reliance Industries Limited buying 96% stake in Infotel Broadband Services Limited (IBSL) for approx. Rs. 4,800crores in June 2010, which had gained the BWA spectrum in all 22 telecom circles during the spectrum auctions which took place earlier in that year. JIO now owns spectrum in 1800-MHz band in 18 circles, and also owns pan-India 850-MHz and 2,300-MHz spectrum. The fight with the giant players was not easy task. In order to further reinforce its spectrum range, JIO also entered into a spectrum-sharing deal with Anil Ambani-led Reliance Communications for 850-

MHz band across seven circles. This way JIO has strengthened its passive infrastructure which is the key and the reason that it can compete with well-established telecom players and offer high-speed of data and voice calls.

Now it has become a challenging time for the incumbents. The company had launched its marketable services from September 05, 2016, with very attractive offers which included free voice calls for lifetime and roaming services for its customers along with lowest ever data charges at about one-tenth of the prevailing rates, reversing a few well set trends of the Indian telecom industry. The telecom sector is all set to witness a lot of thrilling in the coming months with the other operators trying new and innovative policies to retain their market share. The JIO is certain to put pressure on the tariffs at a time when capex for incumbents was expected to increase with the coming spectrum auction wherein the incumbents were under pressure to beef up their spectrum allotment to counter the issue of call-drops and other network quality issues. The much discussed consolidation in the telecom sector which was already on the way is expected to gain further motion with the smaller players likely to be considering for exit options at their expected valuations.

In October 2015, India hit the billion mark for its mobile phone subscriber base, according to Telecom Regulatory Authority of India (TRAI) data. It’s a telling comparison—and the manner in which it maps to India’s economic growth post-liberalization in 1991 is not a coincidence. According to TRAI data, the total number of broadband subscribers in the country at the end of October 2016 was 218.42 million. Of this, access through mobile devices or dongles accounted for nearly 200 million. At the same time, almost 75% of telecom companies’ revenue comes from voice. This highlights two trends that have been apparent for some time now. One, India’s evolution to a digital economy will depend on smartphone penetration, not fixed line. Two, given the revenue models of telcos, it will not be an easy transition. The latest figures following Reliance Jio’s September 2016 launch show just how painful it could be. Earlier this week, Bharti Airtel, the country’s largest telco, reported its lowest consolidated net profit in four years Rs. 504 crores for the third quarter ended 31

December, 2016 as against Rs1,108 crores for the same period last year. Some of this was no doubt due to the currency-swap initiative. But the impact of the Reliance-triggered price war—profits for Idea Cellular, the country's third largest mobile phone operator, fell 88% for the quarter ended September from the same period a year ago—is likely to reverberate through 2017 and well into 2018.

By the beginning of this year, Reliance Jio had signed up 72 million subscribers. The telecom pie in India is so large that subscriber base growth for rival telcos hasn't been hit too hard yet by that rapid growth. Besides, how many of the subscribers stick around once the free service period is over remains to be seen. But the financial strain is another matter entirely. The big three—Airtel, Vodafone and Idea Cellular—have deep-enough war chests to absorb the pain for now. Smaller companies are not as fortunate. Consolidation or exits are inevitable; witness Reliance Communications' merger with Aircel.

What does this mean? For the consumer and the digital ecosystem, nothing bad—quite the reverse, at least in the short run. Telcos have little choice now but to upgrade the quality of their networks, still a weak point. And cheaper data means growth potential for the online content industry. It must contend with international streaming services like Netflix and Amazon Prime that have recently entered the Indian market, but home-field advantage, regional language programming and the possibility of lower price points means it need not necessarily be an unequal battle. It also means that a change in the growth direction of the smartphone industry is in the offing. Currently, less than 10% of the Indian subscriber base has 4G-enabled handsets. Demand will inevitably spike here as data prices plummet and penetration grows. That represents a manufacturing opportunity that dovetails neatly with the Make-In-India initiative. But that comes with its own set of challenges. Domestic manufacturers like Micromax must contend with Chinese companies that have already had a chance to hone their 4G game in the Chinese market. Given the recent surge by the latter and their rapidly growing market share, that will not be easy.

As for telcos, past price wars and high-spectrum auction prices—last year's auction netted bids worth Rs 65,800 crore—mean they are highly leveraged. The added pain of competing with Jio on tariffs, increased capital expenditure from upgrading their networks, and the attorney general signing off on Trai's penalty of Rs 3,050 crore on Bharti Airtel, Vodafone and Idea Cellular over the interconnection issue with Jio could have unpredictable results. Jio's own dubious math doesn't help. Its goal of achieving average revenue per user of Rs 300 within 12 months—nearly twice the industry standard—and breaking even or turning profitable by the end of the same period is more in the realm of a pipe dream than reality. The Indian telecommunications sector might be at an inflection point as significant as the first mobile phone revolution, centred this time around data—but with that, it must also contend with instability.

The government revenue, lenders and shareholders in the Telecom market in India has been hit badly, and the reported debt that the sector is facing has been valued at Rs 3.5 lakh crore. Reliance Jio also had after-effects in the mobile handset industry.

According to a report in ET Now, the government is very concerned at the debt of telecom companies against the spectrum installments. The report said that the government is worried about the decline in license fee receipts because of a fall in telecom companies' revenue. Meanwhile, a few days ago, Telecom Minister Manoj Sinha had said that the government has no immediate plan to provide telecom companies with an option to buy spectrum annually. In a written reply to a question in Lok Sabha, he said, "*The government has not yet made any plan to provide the industry with an option to buy spectrum every year.*" The minister reportedly also said that the government has not yet decided to conduct another spectrum auction immediately. Back in February, then telecom secretary J S Deepak had said that the government is looking to make spectrum auction an annual event.

Following Reliance Jio's announcement of a tariff war, other telecom operators like Airtel, Vodafone, Idea and Idea Cellular rushed to match its offers. Consequently, the revenues have fallen. While the offers have benefitted from the sharp drop in prices, the profitability of the telecom sector has been hit badly. After disrupting the industry with its free services, Reliance Jio has kept up the pressure with its competitive data tariff plans, starting 1 April 2017. Jio has also made all voice calls: local, STD and roaming completely free. The stock market has rewarded Reliance Industries for its aggressive entry into the telecom sector, and the RIL stock jumped more than 13% in a week. Reliance Jio's subscriber base has now crossed 10 crores. The question now is: How many of these subscribers will become paying customers? Most analysts put the number around five crores. As per Mayuresh Joshi, Fund Manager, Angel Broking "The best case scenario is that 50% of subscribers will stay,". Some experts says that the number could be even higher. "Since Jio is offering much higher data, retention rates could be higher than 50%," says Amar Ambani, Head of Research, IIFL.

Reliance Jio's average revenue per user (ARPU) may be higher than the overall industry average of around Rs 150. "We are factoring in an average APRU of Rs 227 for 2018-19, assuming around 53% of Reliance JIO's subscribers will be on the Rs 303 Jio Prime plan, while the rest will be on the lowest-priced plan of Rs 149 per month," says Jal Irani, Analyst, Edelweiss Financial Services. At an ARPU of Rs 227, Jio will need 11.1 crore customers to break even in 2018-19. If the competition intensifies, Jio will be forced to reduce prices further which will eat into its ARPU. In such a scenario, it will require a much larger customer base to breakeven. Jio's successful launch has removed the capital requirement pressure on RIL. In fact, capital expenditure (capex) on Jio as a percentage

of RIL's overall capex, has come down drastically and will continue to fall. While Jio accounted for 96% of RIL's capex in 2014-15, for 2016-17, this will be just 11%. With several refining and petrochemical projects nearing completion, RIL's capex on its core business will also fall. The company is also benefitting from the recent surge in crude oil prices and it should help RIL increase its gross refining and petrochemical margins.

Given the positives, one can consider investing in RIL, despite the recent rally? Experts say existing investors can hold the RIL stock because there's a possibility of a further upside. "Since RIL is emerging from a multi-year under-performance, the upside movement may continue for some more time. Expect another 12-15% upside from the current level, which will help Reliance overtake TCS in terms of market cap in the medium term," says Ambani.

If more than 50% of the existing subscribers choose to stick with Jio, it will have serious repercussions for other telecom players. "Even Jio customers who retain plans from other companies may reduce usage, impacting their ARPU," says Ambani. It will become difficult for Airtel, Vodafone, Idea, etc. to grow their user-base as Jio aggressively adds customers at their expense. Fall in the number of subscribers is just one of the problems staring the other telecom players.

Another key challenge is fall in pricing power. "Due to aggressive pricing by Jio, pricing power in the telecom sector has gone. Other telecom players have no option but to match, follow what Reliance Jio is doing," says Daljeet Kohli, Director and Head of Research, India Nivesh Securities. If others don't match Jio's offers, their market share will go and, if they cut prices, revenue will be hit. The fall in net profits will be more than the fall in revenues. Despite the dangers, stock prices of other companies have not been negatively impacted because of long-term prospects of a more consolidated telecom sector. "Since data consumption is going to increase exponentially, everyone will benefit in the next 3-5 year period," say Joshi. Investors, however, should be cautious. "Since we don't know how long this madness will continue, it is better not to get into it now," adds Kohli.

Airtel, however, is likely to survive this phase and can be a good buy for the long term. "Airtel possesses the leanest cost structure and is improving its capital efficiency," says Pankaj Pandey, Head of Research, ICICI Direct. Its subscriber market share is expected to 29.1% and revenue market share to 33.3% due to its acquisition of Telenor. Singh and Pangrikar (2013), have worked on potential of 4G in current telecommunication age and they revealed about 4G revolution is started in Pune by Airtel. They suggested that the drastic changes and improvements from 3G Technology need to be a priority. But if done intelligently and thoroughly, 4G holds enormous potential for Pune and can really create a boom in the IT industry, key to the Indian economy. According to them 3G to 4G will be stimulated by services offering enhanced quality, requires increased bandwidth, needs

elevated sophistication of large-scale information provisions and must have improved customization capabilities to support user demands.

II. OBJECTIVE & RESEARCH METHODOLOGY

The present study is a qualitative research design, titled 'Impact of Reliance JIO on the Indian Telecom Industry'. The objective of this paper is to study and examine the impact of Reliance JIO on the Indian telecom industry. The study is based on secondary data, to achieve the objective, secondary data is examined which is sourced from website, online sources and scholarly articles, magazines, books, internet and annual report Ministry of Telecommunication, Govt. of India. To analyze the data simple mathematical tools has been used to examine the impact of JIO on the Indian Telecom Industry.

III. ANALYSIS AND FINDINGS

Voice calls are free forever, for every Jio customer, and 4G high speed data is being offered for a low price, which is way less than the cheapest plan available today anywhere in the world. Mukesh Ambani said, "We Indians have come to appreciate and applaud Gandhigiri. Now we can all do datagiri, which is an opportunity for every Indian to do unlimited good things with unlimited data, Competitors of Reliance Jio are trembling with fear, and as per market rumors, Bharti Airtel and Idea collectively lost Rs 12,250 crore during the 45-minute speech of Mukesh Ambani. As per the stock exchange data, such were the tremors of the speech, that Bharti Airtel lost 6.4% of the market share; while Idea had to lose 10.7%. In fact, such are the claims and promises made by Mukesh Ambani, that even RIL's share price was reduced by 2.7%, because people simply couldn't believe what they heard.

On a broader level, free incoming calls means huge operative losses for Reliance, as the company. Even if we assume 500 minutes of free calls every month for 100 million Jio customers, it means Rs 8400 crore of annual expense, in order to keep the promise. Reliance Industries, led by Mukesh Ambani must have calculated the odds and the chances before making these announcements, and there can be infinite discussions and debate on the issue. What we are interested is in knowing, how can such dirt cheap data and free calls assist the Indian startups, especially those who are into the digital industry.

For 500MB 4G LTE Data, Reliance Jio aggressively offers 300MB along with unlimited night time data for 28 days for just Rs. 149. Airtel, which is known for its premium data-voice plans offered 500 MB data valid for 28 days costing Rs. 144; while Vodafone offered 550 MB with 21 days' validity for Rs 189, being the expensive one. Idea has no such data services that offer 550 MB.

IV. COMPARISON OF DATA PLANS WITH VALIDITY

Table-1:

Telecom Operator	Data Offered	Validity (days)	Cost in Rupees
Reliance Jio	300MB + Unlimited Night Time Data	28	149
Vodafone	550MB	21	189
Idea	–	–	–
Airtel	550 MB	28	144

Talking about **4GB** 4G LTE Data, Reliance Jio offers 4GB with unlimited night time data for Rs 499 that lasts for 28 days. On the other hand, Airtel offers the same data for Rs 755 for 30 days. Vodafone, again being

the most expensive one offers 4GB for Rs. 852 for validity just being 56 days. Idea, that has its 5GB data plan, offers it at Rs.851 for a period of 28 days.

Table-2:

Telecom Operator	Data Offered	Validity (days)	Cost in Rupees
Reliance Jio	4GB + Unlimited Night Time Data	28	499
Vodafone	4GB	56	852
Idea	5GB	28	851
Airtel	4GB	30	755

Looking at the Maximum data plan offered by telecom companies as compared to Reliance Jio, Jio offers 75GB along with unlimited night time data for a period of 28 days that costs RS. 4999, being the highest price which is again affordable as compared to what the

other telcos have to offer. For a period of 30 days, Airtel offers 10 GB for Rs 995 whereas Vodafone offers 40 GB for 28 days for a staggering amount of Rs. 3999. Idea on the other hand, offers 15 GB for a period of 28 days for Rs. 1849.

Table-3:

Telecom Operator	Data Offered	Validity (days)	Cost in Rupees
Reliance Jio	75GB + Unlimited Night Time Data	28	4999
Vodafone	40GB	28	3999
Idea	15GB	28	1849
Airtel	10 GB	30	995

Bharti Airtel has announced its biggest price cut since it began offering high-speed data services five years ago. The price of 1 GB of data has fallen from around Rs 190 to Rs 125, a decline of 35%. With this move, With the cuts, Bharti Airtel is now the second cheapest 4G operator in India after Reliance Jio, which offers a handset and 3 months of unlimited data and calls for Rs 2,999, as reported by *RTN. Asia*. "These refreshed data packs will help drive consumption and boost the uptake of mobile internet in the country," Ajai Puri, Director – Operations (India & South Asia), market leader Bharti Airtel said. Also to be in the competitive market, No. 3 telco Idea Cellular slashed effective data rates by offering up to 45% more data benefits for its prepaid users in India.

Over all this, Reliance Jio have plans ranging from Rs 19 up to Rs 4,999, covering almost every level of customer. Also, to provide wireless data connectivity to students, Ambani also mentioned to tie up with universities and other educational institutions in India and announced that students would get 25 percent additional data on the mentioned plans when they produce their Student ID card.

V. CONCLUSION

The 3 after-effects of this tsunami called Jio, for Indian startups:

a) Data is the New Oil; Information is Absolute Power Ancient Indian civilization prospered where there was river; then the modern age prospered where there were roads. The current age can be aptly termed as the information age, and the current civilization will prosper where there is data. As rightly pointed out by Mukesh Ambani during his speech, information will lead India out of poverty, and out of misery. And this makes data the new oil, the new magical entity which can make or break fortunes. Startups in the Internet niche can now look forward to a brand new perspective of entrepreneurship, driven by data and information, rather than location and traditional ideas. What can you sell to a data-hungry population, who is not afraid to use his debit card and not scared to experiment?

b) More Internet Users Means More Customers for Internet Startups. Jio's marketing approach is pretty simple: Entice the end-user with free calls, and then tempt him with cheap data. Once this habit is formed, it won't be difficult to convince the user to use more and more data. Competition will drive Idea, Airtel and others to further drop their data rates, and the cycle will follow. This simple means that in the next few years, there is going to be an explosion of new data users, all over the country. Rural expansion will be the key point, as more and more people adapt to 4G, and use more and more data. More Internet users is the best news for any Internet startup, as now, their user-base will swell and expand all over. In short, Jio has triggered more volume and mass in terms of data usage, and digital entrepreneurs should rejoice.

c) Massive Investment in Visual & Delivery of Content Anticipated. Why is Mukesh Ambani forcing data usage habit amongst Indians with dirt cheap data rates? Digital India vision is no-doubt, one of the crucial factors, but so is the strategy to monetize content, delivered via 4G. As observed globally, when data becomes as precious commodity as oil, then the best way to monetize it using content as the catalyst. When 4G data is as cheap as Rs 50 per GB, then there would be more consumption of content, which includes games, videos, songs and on-demand content. Jio has already announced that they will create huge, online libraries of 10 million songs, 6000 movies, 60,000 video songs, 1 lakh episodes of TV shows in 10 languages, besides operating 300 live TV shows. We derive that in the coming days, there can be massive investment in the entertainment sector, wherein startups would be funded to launch digital content enterprises, to satisfy the hunger of millions of data users. Newer technology to deliver streaming data via mobile, laptop and desktops would be created, triggering more investment in this sector.

From above it is observed that after entry of Reliance Jio Infocom in telecommunication industry, the economic structure of market is still same but the level of competition has grown unexpectedly. No doubt there are various types of benefits provided by the service providers as well as the same is availed by the consumer, which revealed that the earlier losses shown by all telecom operators is only due to inefficiency in the market. If Reliance Jio Infocom will work at the same pace and follow same method of business and survive with any support from associated firms, it will definitely redefine competition in telecom sector. Then the beset and honest will survive and vice-versa has to shut down their business.

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