Sectoral Snapshot

Communication, a key driver of growth 2006-2011

As the world tumbled in 2007 sparked by a real estate and financial crises, the Indian economy remained relatively immune and emerged out of the doldrums earlier than the world as a whole. By 2008 India was on an upward trajectory according to IMF data (see chart below). By 2010, while the US and Europe were attempting to stimulate the anemic growth in their economies, some of the emerging economies such as China and India were applying brakes to their economic growth to curb overheating.

Source: IMF data, 2011

The growth of the Indian economy, with its strong reliance on domestic demand and strict controls on capital between the first quarters of 2006 and 2011, has been spearheaded by growth in the communication sector. During this period, Communication sector witnessed the highest growth rate and was also the third highest contributor to the overall growth rate of the economy. “This sector is expected by many to become the leading contributor to economic growth in the near future” (Silicon India, 19th August 2009).
Communications represented INR 2.03 trillion or 4.2% of GDP (constant price) in the second quarter of 2011, more than four times the amount in 2005, which was only INR .49 trillion or 1.6% of total GDP.

Based on the latest available data for 2010, Communications went up in 28 of the 32 Indian states between 2009 and 2010, most notably in Gujarat (25.5%), Kerala (21.9%), Karnataka (20.3%), and Andaman (19.7%). Nevertheless, Communication increase in Haryana represented 22.5% of total Indian Communication increase during the same period.

India experienced a transformation of its wireless communications infrastructure, registering an exponential increase in the number of wireless subscribers in the last 5 years. While the number of active land lines per 100 residents has been decreasing at an average of 2% per quarter in the last two years, the number of mobile lines per 100 residents increased from 34 in March 2009 to 68 in March 2011. In the last 6 months, the number of wireless subscribers in India increased by 100 million to 852 million as of June 2011. Between December 2010 and June 2011 alone, the North east region and the state of Uttar Pradesh grew the fastest at rates of around 20% compared to the national growth rate in wireless subscription rates of 13.2%.
As of March 2011, India had almost 20 million Internet subscribers, a 22% increase from the previous year. During the same month, Indians used on average 312 minutes of Internet, a 15% increase from the previous year. With the advent of 3G services and the increase in data intensiveness, these are likely to grow even more.

The wireless communications market in India is fragmented with 6 main carriers, each holding a market share between 11% and 20% of total subscribers. The revenue per user (price) for both GSM and CDMA services have been gradually dropping, from INR 220/user and INR 111/user in December 2008 to just INR 105/user and INR 68/user in December 2010, respectively. The very high degree of competition in the provision of these services has resulted in very low tariffs or prices for them. Due to the economies of scale inherent in these services with high fixed costs including spectrum license costs, higher utilization or market share can have the positive effect of lowering cost per user. At the same time, the trend towards consolidation coupled with the increase in data intensiveness of usage patterns implies that the revenue per user is likely to increase in the near future. Given the necessity of these services this is likely to occur without much if any reduction in subscription or usage levels. The margins for this sector can only go up.