

# CEO

# INDIA

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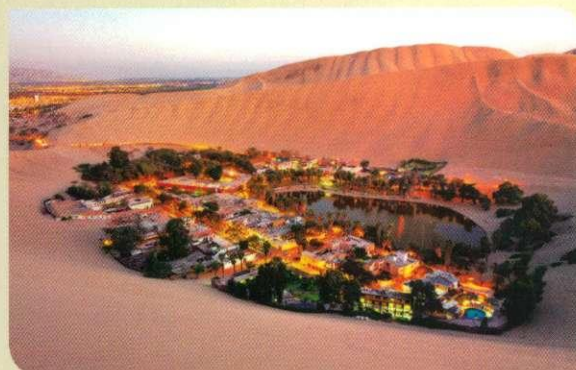


Himanshu Kapania  
Managing Director, Idea Cellular Ltd

## Rise Of The Contrarian

INSIGHT WHY YOUR COMPANY NEEDS A DIGITAL MINDSET

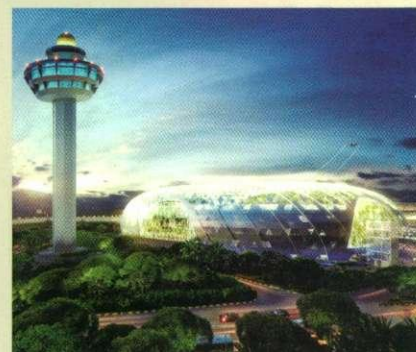
### INSIDE



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# “Idea Is Running A Marathon At The Pace Of A Sprint”

A few companies in India have grown at a pace telecom major Idea Cellular has. From No. 6 in 2008, with a 9.6 per cent revenue market share, to the third-largest today, with a revenue market share of 17.5 per cent, Idea Cellular has been the country's fastest-growing mobile telecom operator for the past 7 years. Idea today has a subscriber base of 157 million – next only to Airtel's 226 million and Vodafone's 184 million – which also makes it the world's sixth-largest telecom operator. A key growth driver has of course been the massive number of subscriber additions in the past several years. Today, the company claims, nearly 30 per cent of the new subscriber additions are attracted to Idea. The operator has also been the biggest net gainer of subscribers through the mobile number portability (MNP) service introduced in 2011. At the end of October 2014, Idea had net gained over 12.5 million subscribers through MNP, Vodafone over 10.4 million and Airtel over 0.5 million. Today, the figure for Idea crosses 13 million. The strategy Idea Cellular Managing Director **Himanshu Kapania** has followed to build his company's business has been rather contrarian. As Kapania puts it: "During the hyper competitive phase from 2009 to 2014 when the number of operators increased from six to 16, instead of a head-on battle, Idea followed a flanking marketing war approach, over-invested in network, built brand, evolved Bharat's largest sales and service programme for the Indian rural hinterlands." Contrary to most analyst projections, Kapania believes there is still enough juice left in the voice market. He says, "Another 400 million new users will enter the market over the next 4-5 years as the rural penetration is only 41 per cent." That's where Idea continues to focus. That said, a big priority has also been expanding the company's 3G network. Kapania says, Idea intends to upgrade 70 per cent of its existing GSM sites to 3G sites...over the next 3 years. "India has only 6 per cent penetration of 3G subscribers. All this is slated to change. Recently, the 3G smartphone prices have broken the Rs5,000 price barrier and operators aggressively expanding their 3G footprint," he says. In an interview to **Amit Ranjan Rai**, Kapania speaks on his company's growth plans, issues facing the telecom sector and his approach to the recent spectrum auctions.

**You have seen Idea Cellular grow during your two stints at the company. What is your vision for Idea Cellular?**

Since 2006, when the Aditya Birla Group became the sole promoter of Idea Cellular Limited, the company has grown in stature from a low presence, #6 operator (FY '08 revenue market share – 9.6 per cent] to the 'fastest growing Indian telecom operator' for the last 7 years with a revenue market share (RMS) of 17.5 per cent (Q3 FY '15) and a customer market share of 18.2 per cent. During this period, the company has acquired nearly 150 million incremental subscribers, establishing Idea Cellular as the world's sixth-largest telecom operator with current consumer EoP base of more than 157 million quality subscribers, generating global scale daily volumes of over 2.2 billion voice minutes and over 600 million megabytes of mobile data. Over these formative 8 years, from being a negative balance sheet value and loss-making company in FY '07, the company, with aggressive capital investment, innovative sales and marketing programme, and prudent financial restructuring, has strengthened

its balance sheet with a current valuation in excess of Rs67,000 crore (enterprise value as on January 1 '15). Over the last four calendar years (CYs), Idea has delivered annual growth rates (CAGR) of 19.8 per cent in revenues, 29.1 per cent in EBITDA and 36.5 per cent in PAT, doubling its revenues to Rs 30,180 crore in CY '14 (CY '10: Rs 14,670 crore), tripling its EBITDA to Rs 8,967 crore (CY '10: Rs. 3,223 crore) and quadrupling its PAT to Rs 2,976 crore (CY '10: Rs 857 crore).

Having built strong foundations, our vision for Idea is to be the 'most preferred brand' of choice both on mobility voice and data space for the 1 billion Indians. In line with this vision, the company has stepped up its investment outlay on spectrum and capital equipment. Besides the hard financial investments, our soft vision is built on the three key pillars of:

- Pervasive "customer Centricity" – measured on Net Promoter Score (NPS).
- High "employee orientation" – a happy place to work.
- "Best-in-class, seamless execution".

We at Idea believe the company is running a marathon at the pace of a sprint. Idea over the years has transformed itself with aplomb, shredding its timidity in favour of dreaming bold and big, thereby infusing energy and passion across all our team

members and associates.

**What has been your approach to spectrum auctions this year and the reasons for the same?**

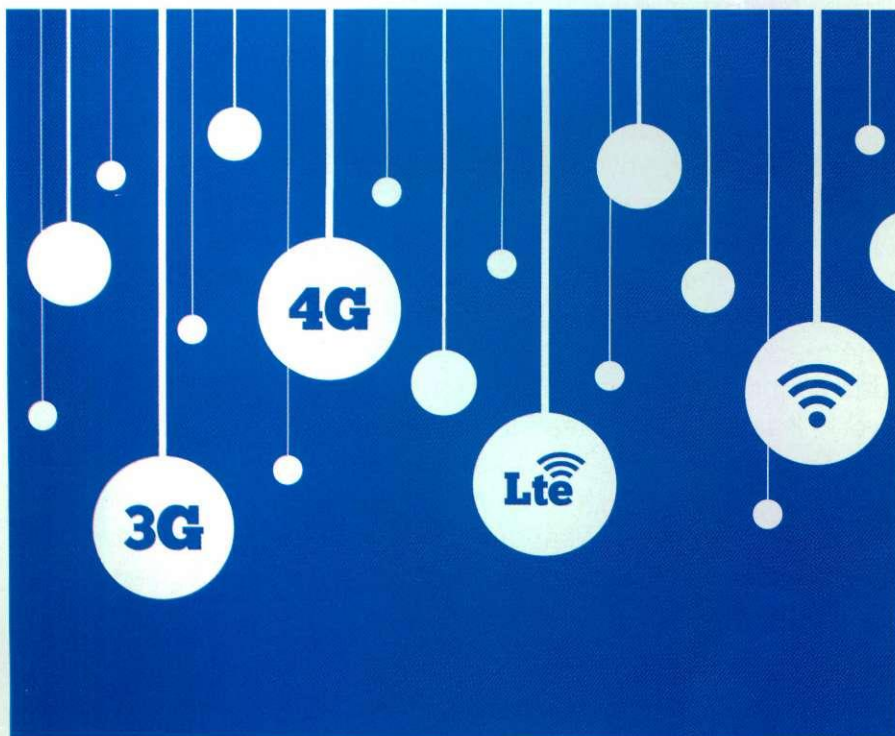
Since 2010, Idea Cellular has participated in five spectrum auctions committing Rs 48,000 crore for 20 year liberalised spectrum and has enhanced its overall spectrum quantum – the key raw material for telecom operators – from 101.8 MHz (2010) to 270 MHz (2015). Up until the 2015 auctions, Idea focussed on acquiring spectrum primarily for offering the latest high-speed mobile data services on 3G and 4G platforms. But the recent March '15 auction was largely designed for the renewal of existing, in-use efficient 900 MHz spectrum. Nine of Idea's service areas, where original licenses were acquired as early as year 1995/1996, were due for extension after 20 years and it was critical for us to ensure continuity of Idea GSM services for our 106 million customers (out of the overall 155 million plus subscriber base).

We are pleased to share that Idea has managed to renew/extend all its existing nine licenses. Including 2012 and 2015 spectrum auctions, Idea now has ensured highest renewal of 16 out of 22 licenses among all existing telecom operators, covering 77 per cent of its current subscriber base and 78 per cent of its revenues. Of the remaining licenses, four are due for renewal in year 2021 and the last two as late as in year 2026.

With the completion of this auction, Idea has sufficient spectrum to provide pan India GSM services, 3G services in 13 circles covering over 75 per cent of the existing consumer base and 4G services (when the ecosystem evolves) in 10 circles covering 57 per cent of our subscribers.

**What is your debt position like currently?**

Idea Cellular is in the business of providing mobile telecom infrastructure in over 350,000 towns and villages on a pan India basis. With the current auctions, Idea's gross asset block is slated to cross Rs 90,000 crore as of financial year 2015-16. As on January 1 '15, Idea had the lowest net debt in the industry of Rs 1,089 crore (standalone) with a Net Debt : Annualised EBITDA ratio of 1.12 in a sector reeling under high leverage of over Rs 350,000 crore (post March '15 auction). Our net debt will rise to Rs 35,000-37,000



crore by fourth quarter of financial year 2015-16, but the instalments for repayments are back-ended till year 2028. Also, the company's cash profit in calendar year 2014 was Rs 7,536 crore and is growing at a rate of 24 per cent (year-on-year growth CY '14 vs CY '13).

For the March '15 auctions, where the company has committed over Rs 30,100 crore, it will be availing of the payment instalment scheme of Government of India, and will be making over 25 per cent as upfront payment of nearly Rs. 7,700 crore on April 9 2015. The balance will be payable in 10 equal instalments from April 2018 onwards.

**Are you happy with the amount of 3G airwaves put on sale this year by the government? Will it help facilitate the Digital India project?**

Globally, there are nearly 2.3 billion 3G users out of the 7 billion mobile users (based on GSMA report). With the evolution of the ecosystem and transition of Indian consumers to a digital lifestyle, it is inevitable that the demand for mobile data will grow at 'triple digit rate' and explode over the next 5 years. To meet this burgeoning demand, the country needs a minimum 20-25 MHz dedicated contiguous block of mobile data spectrum per operator for 3G and 4G service. India, even after the March 2015 auction, has amongst the lowest frequency allocations with no pan India 3G operator. The sub 1 GHz spectrum, normally allocated for commercial mobile services is being underutilised and inefficiently allocated for other use, and needs to be re-farmed. There is an urgent need to make available dedicated mobile data spectrum in contiguous blocks in lower globally standardised spectrum bands at affordable prices to fuel competition and meet capacity needs.

**How do you see 3G adoption is happening in India? Is it finally picking up? We still rank low in 3G adoption compared to major markets the world over. What have been the limiting factors?**

The 3G 2100 MHz and 4G 2300 MHz spectrum was auctioned as early as year 2010 but the early consumer adoption of 3G services has been slow, and 4G services have still not been launched. According to the latest TRAI release (September 2014), India has only 6 per



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cent penetration of 3G subscribers at 54.5 million out of the 930 million wireless subscribers.

Reasons for 2011 to 2014 slow off-take include:

- i) Low availability of affordable smartphones.
- ii) Limited 3G coverage as no pan India 3G operator exists.
- iii) Lack of dedicated regional digital applications and content with Indian cultural flavour.

All this is slated to change. Recently, the 3G smartphone prices have broken the Rs 5,000 price barrier and we expect device prices to fall further, making it affordable for Indian consumers to upgrade the strong 900 million GSM phones base. Secondly, the Indian telecom operators are now aggressively expanding their 3G footprint.

As India is leapfrogging and bypassing the PC/laptop era to smartphone adoption directly, and most Indians are accessing internet services for the first time, the popular developed world applications like email, search, education and developed world applications, and so on, find low appeal in the Indian mass market. With the arrival of social media and innovative messaging and chat

applications, high user self-generated content like photos and films, and evolution of mobile video content both for entertainment and information, the demand of internet services is slowly but definitely improving. This growth will be fuelled further by arrival of cash-flush e-commerce players who are primarily driving business on mobile through the m-commerce platform.

Lastly, with the RBI expected to issue payment banking licenses and streamline digital payment, the adoption of mobile banking and digital financial services will fuel growth of internet.

**What is your strategy towards converting your networks to 3G? What are the plans for the next few years and the thought behind them?**

In order to cater to the ever-growing subscriber base and prepare for the next phase of growth based on mobile data services, Idea will continue to expand its network coverage and upgrade its mobile data handling capacity. In the first three quarters of the financial year 2014-15, Idea integrated 5,153 additional 2G sites expanding the footprint to 109,931 GSM BTS covering 7,422 census towns and 3,54,000 rural villages.

During the same period, the company also launched 6,363 3G sites – 1,210 sites more than the number of 2G sites – taking the overall 3G Node B count to 27,744. Idea intends to upgrade 70 per cent of its existing GSM sites to 3G sites from the current level of 20-30 per cent in 13 licensed areas over the next 3 years.

**It is inevitable that the demand for mobile data will grow at 'triple digit rate' and explode over the next 5 years. The country needs a minimum 20-25 MHz dedicated contiguous block of mobile data spectrum per operator for 3G and 4G services**

Idea has acquired 3G spectrum for 13 service areas giving us capability to offer 3G services to 75 per cent of our base. We are also evaluating the correct timing for launch of 4G services on LTE platform in 10 circles where Idea has acquired 4G spectrum.

**Idea posted a nearly 64 per cent jump in its December quarter profit at Rs 767 crore, helped primarily by an increase in the subscriber base. Last fiscal, your subscriber base grew by an impressive 11.7 per cent. In fact, you've been adding new users at a faster rate than rivals – Bharti Airtel and Vodafone India.**

**What has been your strategy to grow the subscriber base that has worked so well? How have you been able to attract and retain new subscribers?**

Idea has maintained its leadership position in term of incremental subscribers and revenues. Today, nearly 30 per cent of new subscriber additions in India are attracted to Idea. In calendar year 2014, Idea added 22 million subscribers. Since the introduction of mobile number portability (MNP), Idea leads with net additions of over 13 million subscribers. We believe that the reason for our success in subscriber growth is driven by three strong analyses:

- 1) Contrary to most analyst projections, Idea believes that there is still sufficient juice for new subscriber addition in the Indian market. Another 400 million new users will enter the market over the next 4-5 years as the rural penetration is only 41 per cent (according to TRAI); even lower penetration than in lesser developed African countries.
- 2) Idea has pursued a contrarian strategy to build its business. During the hyper competitive phase from 2009 to 2014 when the number of operators increased from six to 16, instead of a head-on battle, Idea followed a flanking marketing war approach, over-invested in network, built brand, evolved Bharat's largest sales and service programme for the Indian rural hinterlands. Today's results are an outcome of this big strategic move.
- 3) Thirdly, Idea believes India is a vast country and cannot be treated as a homogenous market. In its formative years, the company focussed on the north-western corridor of India and



as a result, Idea is No.1 and not No.3 operator in the combined eight services areas extending from Punjab, Haryana, Uttar Pradesh (West), Uttarakhand, Madhya Pradesh, Chhattisgarh, Gujarat, Maharashtra, Goa, Kerala and Andhra Pradesh.

I believe, with relentless pursuit of geographic segmentation and special focus on customer profiling, Idea has been able to win the hearts of the Indian masses – both Bharat and India. Idea is the most preferred brand in the small/ mid-sized towns and in the deep interiors of India, and we take pride in our position.

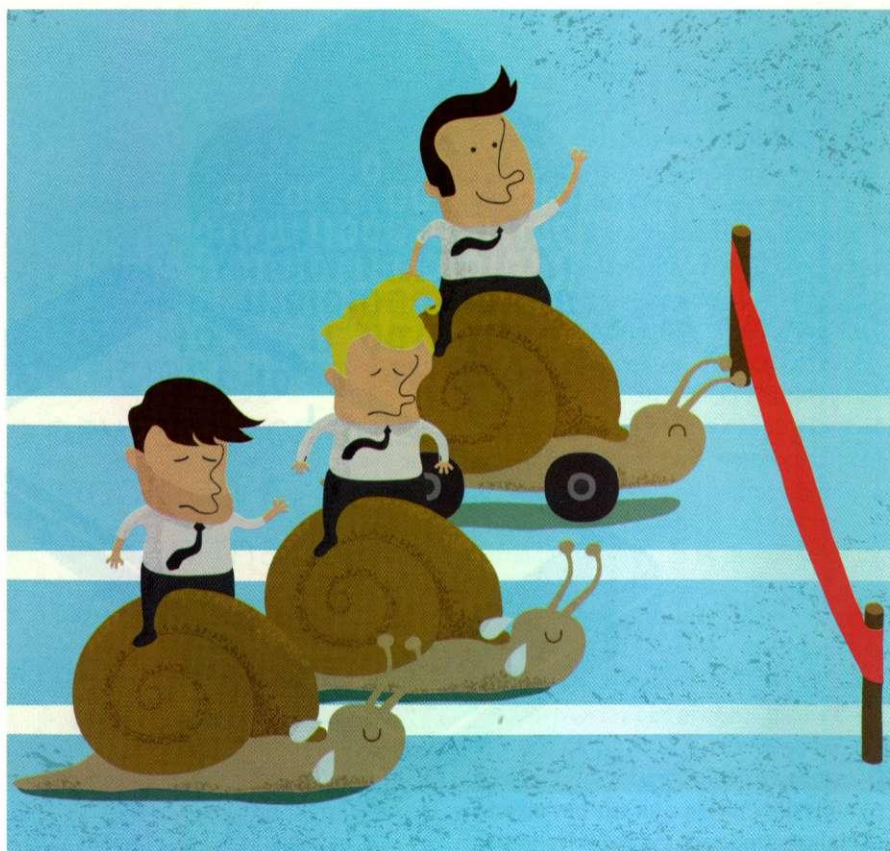
**In FYU, Idea Cellular was the fastest-growing Indian mobile operator with an impressive 17.3 per cent annual growth in revenues and 37.5 per cent annual EBITDA growth. What have been the drivers behind the robust growth (other than subscriber growth discussed above)?**

In spite of the massive subscriber addition in the last 4 years, Idea remains focused on quality of customer and we have managed to improve Subscriber Average Realisation Per User (ARPU) from Rs 169 (Q3 FY '14) to Rs 179 (Q3 FY'14). The company has achieved high subscriber addition and ARPU improvement through a balanced approach on voice and value-added services (VAS). In the last year, the company improved its VAS contribution to revenue from 16.1 per cent to 23.1 per cent, among the highest for any telecom operator, with mobile data revenue growth ahead of 100 per cent. Most of our customers continue to expand their usage on our network and today "minutes of usage" per user (MOU) is at a benchmark level of 388 minutes per month.

Over the last 5 years, the company has been targeting and successfully meeting a 20/30 plan, that is, a 20 per cent revenue growth and 30 per cent EBITDA growth. In the last two calendar years, Idea has improved its EBITDA margin from 23.1 per cent to 29.7 per cent driven primarily by scale efficiencies and cost optimisation.

**How do you balance the delivery of quality services with affordable price points, as has been your strategy? How sustainable is this?**

To ensure high quality services, Idea has been very consistent in the last 3 years with capital investments of Rs 3,500



crore per year. During the last 3 years, the company has expanded its network presence from 275,000 villages to 350,000 villages. The company has expanded its coverage by integrating 29,200 2G sites and 16,800 3G sites and strengthened its backbone by lighting 90,000 km of fibre. In comparison, the market has been volatile and hyper competitive and consumer has enjoyed 4.5 per cent lower realised rate on voice services.

Idea prides its success on scale benefits, generating 2.2 billion minutes per day, positioning us as the 6th largest operator in the world and supporting 600 million megabytes of data per day, placing us among the top 10 in the world. In the past, the low affordable price was also helped by lower cost of raw material spectrum, but with astronomical spectrum costs, we may have to tweak the current approach in order to compensate for higher auction demands and emerging inflationary cost pressures.

**What is going to be your roadmap for 4G services and network expansion in India? What factors will guide your 4G strategy?**

We are at a cusp of a mobile data revolution in the country as the existing 900 million subscribers upgrade their

existing GSM phones to smartphones. However, there is going to be no leapfrogging to 4G as the 3G services ecosystem is far more affordable than newer technology.

While the future for mobile internet services is extremely bright, India has to invest heavily to educate the lower socio-economic consumers and bottom of the pyramid users, on the power of digital services. Demand generation, coverage expansion and affordability are critical for growth. Currently, 3G services are able to satisfy the existing needs but by 2020, as 4G services around the world become ubiquitous, the 4G device and network equipment prices will become affordable, Idea Cellular will launch its 4G services. The company has been cautious to acquire 55 MHz of contiguous 1800 MHz spectrum for 10 service areas for 4G services but will launch Idea's LTE services when the mass market is ready and consumers spend top dollars to upgrade their phones to 4G LTE.

**You intend to focus on improving voice and mobile data realisation rates instead of increasing headline tariffs. What are the levers under your influence that can make this happen? Are your competitors**



#### also thinking the same way?

Idea's approach has always been balanced with the customer delight at its centre. Given low per capita income of Indian population and the vastness of our country, Idea's macro consumer approach will remain to offer high quality services, even in deep interior rural markets at affordable prices. The company will continue to pursue subscriber acquisition and volume-led strategy both on voice and data, but inevitably we may be forced to tweak our mobile tariffs to counter the extra ordinary large costs arising out of spectrum, increased GST charges and other regulatory cost and tax pressures.

**Almost everyone in the industry agrees it is time for consolidation as there are too many players and the returns on the capital invested is low. What's your view? Is Idea Cellular open for consolidation? What's the likely pattern in which you see consolidation happening in the near future?**

In 2008, DoT expanded the number of telecom operators from six to 16. Though in 2012, with Supreme Court's intervention, the number of operators fell, but still on an average there are 8 to 10 operators in India across each service area. The argument for hyper competition in India is that it is globally

#2 in terms of subscribers at 900 million but the country is a pygmy in terms of gross revenues contributing just 2.5 per cent to global revenues.

Indian mobile operator's cost structures are similar to the developed world operators with spectrum being sold at competitive auction prices higher than the global frequency prices. To be able to balance this high cost structure and still hope for the lowest voice and data tariffs, Indian mobile operators have to operate at a much higher volume and generate scale. It is thus inevitable that Indian telecom market will consolidate. We believe consolidation will occur as and when spectrum trading and sharing policies are formulated. Coupled with this, is the need for a pragmatic and realistic mergers and acquisition policy that allows the risk-taking consolidator, profit potential.

**Idea Cellular received the "Best rural service provider" award. How do you differentiate from competition in the rural segment? What is your rural penetration like and the strategy for the same?**

Idea recognised the low rural penetration of mobile telephony services early on and decided to go rural first which has given it an early

mover advantage. Since 2009, Idea has been the front-runner in establishing a robust rural network, among the most extensive distribution channel and a mass market brand to drive mobile penetration. In the last 5 years, we have expanded our reach to more than 350,000 towns and villages pan India offering an opportunity to over 1 billion Indians to choose Idea mobile services.

Besides capital investment, Idea is proud of its rural strategy. Firstly, we built our brand and marketing programme not as a counter to other existing operators but focussed our advertising spends to share the power of mobile services with mass rural population on strength of award winning campaigns like the caste, population, health, environment... advertising programmes. Secondly, to get an extensive and deep spread in the rural areas, Idea adopted a unique, first-of-its-kind direct distribution and sales model with a more granular approach of hiring 'sons of the soil' for enhancing service and distribution. We believe that Idea's rural distribution network is one of the largest in the country – much bigger than any FMCG or rural marketing company's. Today, a network of over 4,500 Idea direct sales staff, 50,000 distributors and over 1.5 million retailers, and 5,500 service centres covering 99 per cent of villages Idea reaches out to our subscribers in the remote nook and corner of the country.

**What is your customer service philosophy and how successful have your My Idea retail outlets been?**

Idea's performance in mobile number portability (MNP) ever since its introduction in 2011 is a true testament of our customer service. We have been able to register a net addition of 13 million subscribers since MNP service was launched. Our internal studies on customer satisfaction indicate higher CSAT (customer satisfaction) and NPS scores for us compared to other Indian telecom operators.

Our approach has been very customer centric. With over 15,000 contact centre service agents, "Service+" specialised services and over 5,500 service centres going even into the hinterland, supported by massive IT investments, Idea has tried to deliver high quality affordable services at the customer's doorstep.

However, we believe that our soft touch

approach is making all the difference. We have continually tried to build a high degree of sensitivity to customer's need within the organisation. Training and development initiatives, use of customer data analytics and other predictive IT tools, intense and periodic customer feedback programmes, and so on, have enabled us to build Idea's unique consumer-oriented approach.

'My Idea' retail outlets, our partnership with franchise on revenue-sharing model, have been the key to our post-paid strategy. While in our formative years, Idea started slowly on post-paid front, we now have a base of over 6.5 million post-paid subscribers. We pride in our unique end-to-end sales, service, collection and billing partnership model to serve our post-paid customers better. 'My Idea' stores typically operate in a small geography, within 10-12 km and provide special service to Idea customers. These stores have been instrumental in taking us a step closer to our customers.

**Your brand communication "The Power of an Idea" has played a significant role in building a strong connect with customers. What has been your current brand positioning and branding strategy? Has there been a change in the branding strategy or communication with changing times?**

In our brand positioning, we chose not to drum beat tired attributes like network, product features, promotions or lowest tariffs. We may not have been the biggest but that did not stop us from thinking like a champion. Our USP is our mindset. A brand that has focused on shifting paradigms from feature differentiator to making mobile telephony a catalyst to change lives. Simple ideas that have potential to change our lives – we paint a picture of possibilities.

In the initial phase from 2008 to 2012, we focused on several relevant cultural issues of the country. The "What an Idea Sirji" campaign narrated several memorable stories – caste wars, education, democracy, and population – and demonstrated how a simple telephony idea can provide solutions to the challenges faced by Indian society in these contexts. Idea's forward looking communication depicted path breaking solutions which have become a reality today. Our advertising echoes the very

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human, fun filled and 'can do' spirit of Idea.

We have tried to continue our category building and demand generation focus in mobile data business. With the recent advertising campaigns "No Uliu Banaoing" and "IIN – Idea Internet Network", the company promotes the message of how the exciting new world of internet services and use of mobile data can transform the lives of Indians. For us, challenges of the market beget opportunity for an idea and unravel our creative juices. I believe trends of mobile and social, offer immense opportunity to integrate our brand content across multiple screens. An element of serendipity is built in by design in our campaigns.

In the new 2015 avatar, Idea is more approachable and engaging, empathetic to consumers, inspirational, smart, witty but trustworthy and analysis focused.

**From the 13 other players in the market, who do you see as a player with big potential? What are they getting right?** Telecom is erroneously categorised as either the technology sector or the services sector, the consumer sector, the infrastructure sector and sometimes even the commodity sector...it is none of these and yet all of these. It is the ultimate management sector. You go headlong



against some of India's and world's biggest and most ferocious competitors in very trying conditions. Every management discipline is stress tested day in and day out. It is an unforgiving sector and the room for error is small.

Idea with anti-fragile properties has not only survived in this market against much financially stronger and globally successful mobile companies, but has thrived in the telecom chaos, and volatility of Indian regulations and political dynamics. We continuously benchmark ourselves against best in the industry but are never in awe of their achievement. Competition will remain intense and Idea would play the game in its true spirit.

**What are some of the infrastructure challenges the industry faces and what has it done to overcome them?**

While telecom is an industry in the infrastructure sector, by law, it has never been treated as one. Telecom, along with power and water is the only sector present in every nook and corner of the

country and needs support not only from the regulator and ministry but also from Central, state and local governments. For India to become a superpower and grow at double-digit rates, it is my belief that the information, communications and technology [ICT] sector has to lead the growth.

Telecom is the backbone which will lead the country and that is only possible if the telecom infrastructure is built and maintained at a pace faster than the demand. There is lot of unfinished agenda in the mobile sector as companies continue to expand in hinterlands, build mobile capacity for data and meet customer demands on fibre to Home. Seamless and speedy RoW (right of way) approvals from local authorities, uninterrupted supply of power and provision of towers are the key areas which the government can provide support in.

**You have witnessed the telecom industry change dramatically over**

**the years – from the times of the two-player fixed license regime to other industry landmarks such as the introduction of mobile number portability. What are the next big changes expected in the industry?**

Idea is not a company driven by mantras provided by the CEO. In Idea, the decision and action points stretch from senior to junior team members, across functions and across geographies. The managerial ecosystem harnesses the energy. That is the reason, normally, I am reluctant to speculate on trends. But, my estimate is that the industry is poised to be the harbinger of growth of the Indian economy, the key facilitator to help India achieve its double digit-growth dream. I expect:

- 1) Mobility market will evolve from pure voice to a balance of voice and mobile data.
- 2) Over the next decade, banking services will evolve from HNI/ corporate segment focussed to banking for the 'unbanked' - mobile banking, digital payments, etc. will become an integral part.
- 3) From human-led analogue services, machine to machine (M2M) services, including evolution of smart home, smart city and connected cars will transform Indian lifestyle to a higher order.
- 4) Life saving and critical applications on health/education/governance will be driven on mobile platforms.
- 5) Internet of Things (IoT) will become a reality and thrive.

A World Bank study indicates that for every 0.9 per cent improvement in telecom, a nation's GDP improves by 2 per cent. For all of this to fructify, the Government of India will have to meet the spectrum demand (both in terms of quantum and affordability), and a reliable and predictable tax structure that does not hurt the consumer. The mobile network provides critical connectivity across the length and breadth of the country, and in times of emergency, has proven to be a lifeline for the average citizen. Today, as we enter the next 20 years of the evolution of the industry, the benefit that it brings to the average man on the street is a given, and policy now needs to be an enabler to allow the country to take its rightful place in the ICT world.

