The Slide of an Aging Leader*

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After 15 years, the Tata group has exited the mobile telephony business. Its assets in the area located in Tate Tele Services Ltd (TTSL) have been taken over by Bharti Airtel. The Tata name has featured in the mobile telephony market ever since it acquired Hughes Telecom (India), incorporated in 1995, and renamed it Tata Teleservice Maharashtra in 2002. Since Tata Tele's other enterprise, retail fixed line, and broadband businesses are being merged with Tata Communications and Tata Sky, TTSL is in essence being dismembered. Few of the firm's current employees would be absorbed by Airtel or the Tatas themselves. So, this is clearly the end of the road for TTSL.

From an industry level perspective, the exit of TTSL seems to be only one more step in an inevitable process of consolidation in the mobile telephony business. The promise of fast growth and high profits encouraged many players to seek out fortunes in the industry. The resulting competition not only saw entrants and incumbent firms paying huge sums to win licences for different circles and acquire spectrum, but also triggered a price war that brought the average revenue per user (ARPU). Soon, it was clear there was not enough space in the industry for all service providers to survive and record profits. So, if there is cause for surprise in the TTSL development, it is not the exit of another firm from the industry that is responsible, but the fact that a venerable business group like the Tata's had to give up its space and make way for others after a 15-year effort.

Moreover, it is not just that the Tata's threw in the towel, but they gave Bharti Airtel a bargain to envy. Airtel needed an acquisition. With the Mukesh Ambani established Reliance Jio having entered the market and decided to launch a no-holds barred price battle to win customer base, and with Vodafone deciding to acquire Idea Cellular, subject to clearing the regulatory hurdle, an acquisition by Airtel was imperative. It would have been willing to pay a decent price for access to more spectrum, coverage area and subscribers. Yet it seems to have won itself a rather good deal in the so-called merger with the mobile telephony business of TTSL. Having to pay just Rs. 1,500 crore to cover a part of the unpaid spectrum fees owed by TTSL and under no obligation to keep the former 5,000-plus employees of that company, Airtel gets additional access to 19 circles with 178 MHz of spectrum.

This overshadows the fact that the addition to the subscriber base is only 40 million. After the deal, Airtel has managed to cover much of the distance between it and the merged Vodafone-Idea Cellular venture. The share in total spectrum of the two merged groups are 29 and 28 per cent respectively, and though Airtel's enhanced subscriber base is at 324 million, lower than that of Vodafone-Idea's 404 million, its revenue share is estimated to be at 40 per cent around 5 percentage points ahead of the latter, because of a better ARPU. Further, it has made the catch-up challenge it poses for Reliance Jio much harder, since Jio has only 18 per cent of the spectrum share, 11 per cent of the subscriber share, and, because of its aggressive pricing, an estimated mere 2 per cent of revenue share. Reliance would have to dig deeper into its pockets to realise its ambition of becoming the leading mobile services provider in the country.

When compared with all this TTSL has got nothing out of the merger other than mere exit. Airtel is required to pay Rs. 1,500 crore to cover part of the of payments due for spectrum acquired by TTSL. Tata's on the other hand are left with the task of clearing up debt of Rs. 38,175 crore (including Rs. 7,500 crore of payments for spectrum), and the residual businesses outside of mobile telephony as compensation for sums pumped into the loss-making company to keep it running. In the earlier history of the telecom industry, those who left the mobile business did so after taking huge capital gains from the sale of assets, especially the scarce spectrum they had acquired in previous rounds of spectrum sale. Now exit is costly as the debt burden left with TTSL proves. Clearly Airtel has managed to drive a hard bargain.

A number of factors seem to have favoured Airtel. The Tata's are desperate to exit the industry and at this stage there are few buyers for mobile assets since ARPUs are low and the price war is still on. The desperation on the part of the Tata's stems from two sources. First, the long saga of missed opportunities and downright errors that explains the current state of TTSL. Tata's entered the telecommunications game early. And even though CDM, through which it got its entry, appeared initially to be a disadvantage, it had other advantages such as the acquisition of VSNL under the then NDA's strategic sale initiative. That acquisition not only gave it an early and material presence in the data distribution business, but also gave it access to the Rs. 1,200 crore cash surplus left behind in VSNL by the government, that the Tatas chose to have invested in TTSL. In time, migration from CDMA to GSM services provision became possible under the government's Unified Access Services policy. All that is more than enough reason not to complain. If failure still occurred, it is because of just bad management, the setback from which the Tata's had clearly decided cannot be reversed.

Second, the industry is still populated with sundry providers holding around 30 per cent of total spectrum and around a quarter of the subscriber base. With the shake-down of the industry, they too are looking to sell. Deals between smaller players are difficult to engineer as the collapsed merger talks between Reliance Communications and Aircel suggest. So, the strategy of accepting the Airtel bid, however unfavourable, and cutting losses and moving out, rather than looking for better terms, possible made sense to the Tatas under its new chief.

That having been said, the TTSL sell-out does not do much good for the image of the Tatas. The Tata group had for long an image of being efficient, fair and socially responsible. There were good reasons, including its foray into the capital-intensive steel industry early in India's industrialisation history under the British. That image remained unsullied when instances of failure surfaced, but were soon forgotten. One instance of such failure was the take over in 1986 and subsequent closure in 2002 of the group's flagship Empress Mills in Nagpur by the Maharashtra State Textile Corporation. That did show that the Tata's too were capable of letting a once-flourishing enterprise go to seed. There were also examples of forays into technologically dynamic areas that did not work, such as the entry into electronics through NELCO, incorporated as The National Ekco Radio and Engineering Co. Ltd as far back as 1949. More recently, the group has resorted to high profile acquisitions of firms like Jaguar and Corus at prices that many assessed as unwarranted. Finally, there was the dramatic collapse of its presence, surrounded by hype, in the small car business in the form of the Nano. By then it had become clear that this giant too had feet of clay.

If despite all this the Tata name commands respect among Indians, it is partly because of the pathetic state of many others among the traditional business groups. But, the Tata group's strength today is in significant measure also due to the success of Tata Consultancy Services (TCS) engaged in the software and IT-enabled services business, once the preferred site for small start-ups. So much so that, when a nasty boardroom spat saw the exit of Cyrus Mistry as Chief Executive, the former head of TCS Natarajan Chandrasekaran was brought in to address mans of the company's flaws that were brought to light in the feud between Ratan Tata and Mistry. Chandrasekaran's mandate is clearly to clean the books of Tata Sons and its group companies of the bad assets that have accumulated in them. TTSL's exit in one step in that cleaning process. Many more are likely in the coming days. At the end of that, the group, in both relative size and image, may be reduced to a shadow of its former self. And not only because others have grown faster and better than it has.

*** This article was originally published in the Frontline Print edition: November 10, 2017.**