

Mismanagement of business by Indian telcos like Tata Teleservices is the real cause of flight of foreign capital and not policy paralysis, argues B K Syngal

As the new MPs take oath in the parliament today, B. K. Syngal, arguably the most eminent Indian telecom expert, has agreed to write three article series for the TelecomTiger on the sector. The idea of this series is to give right perspective to the new policy makers. In the first article today, Syngal argues how the big telcos are themselves responsible for mismanagement of their businesses and not the so called “Policy Paralysis”

In April, NTT DoCoMo announced its decision to exit India by unloading its entire stake in Tata Teleservices by exercising its put option and there is a further possibility that Maxis Malaysia will do the same with its investment in Aircel. What is causing this flight of foreign capital from India? Is it because of the buzzword – “policy paralysis”, or is it because of a business management which is on dialysis? This author is inclined to think that it is the latter, in view of the following facts and figures.

Lately, there has been a hue and cry in the press that policy paralysis is hampering FDI into India, and more specifically into the telecom sector. However, the facts tell another story. **Both the Indian companies, especially Tata Teleservices, were beneficiaries of the massive largesse doled out by the government in 2003, and attained a back door entry into full mobility from limited mobility, yet again getting spectrum in 2008 at rock bottom 2001 price discovery and escaping cancellation as a result of a flawed interpretation of the Supreme Court Judgment.** So how is it that instead of a having dream run, these companies are now struggling to make ends meet?

DoCoMo had purchased its Tata Tele stake in installments in 2009 and 2011, when Tata Tele was on the verge of adding GSM services to its CDMA-based offerings, as a result of the gravely flawed recommendations of 2007 which enabled them to acquire GSM spectrum under administered price regimen in the name and style of “combination technology”.

Tata Tele is also a company which escaped cancellation and quashing of spectrum vide the Supreme Court judgment of February 2012, thanks to a wily interpretation by the licensor. It is also a company which is a beneficiary of Spectrum Usage Charges independently for two sets of spectrum because of a favor granted by the licensor, and despite recommendations to the contrary by the apex regulator, TRAI.

Notably, Aircel’s narrative is shockingly similar to that of Tata Teleservices. Among the 179 licenses that were issued in 2004, in defiance of the 2003 recommendations, Aircel had 14 licenses. Thereafter, with controversial involvement of the then Telecom Minister Dayanidhi Maran, Aircel was acquired in 2005 by Malaysia’s biggest integrated communications service provider Maxis (Maxis Communication Berhad) in a joint venture with Sindya Securities & Investments Pvt Ltd. Maxis currently holds 74% equity in the company.

Similarly to the Tata Tele case, the licensor protected Aircel from its fraudulently acquired spectrum being cancelled consequent to the February 2012 judgment. It goes without saying that a considerable amount of malpractices and arm twisting took place in the backdrop of these events, to ensure that these entities stay in the game and enjoy competitive advantages.

Thus, here are two companies which have everything going in their favor: licensing, regulation, policy and even legal disputes. Yet, these are the companies from which foreign investors want to flee. Is it because of policy paralysis? The answer lies aptly in the proverb, “a bad workman quarrels with his tools.”

It seems that these companies are struggling to run telecom businesses and through a series of gaffes, such as incorrect choice of technology and inefficient management pandering to the political class, have completely lost the plot. It is not out of place to mention here that the Tatas were involved in the infamous Niira Radia case and Aircel was involved in the more infamous A Raja case. No matter how much the business journalists want to obfuscate it, the sheer incompetence of these companies is clear to the general public. More importantly, the fact that the press is hammering on policy paralysis as a reason for the flight of foreign capital, reflects an unethical approach to journalism, wherein the press is becoming a sponsored platform from which companies can abuse the government.

This author is compelled to make a clarion call to all discerning stakeholders to recognize the mala fide intentions that are dominating policy-making in India today. The press needs to ask how Tata Tele and Aircel accumulated such a high quantum of debt to the tune of INR 28,000 crore and INR 14,000 crore respectively, in spite of all the backroom dealing and massive equity infusions. The press needs to expose the ways in which these companies misused not only their domestic funds, but also the funds invested by foreign investors.

In fact, it is all the more important for the press to be a faithful watchdog of the common man considering that this is slowly becoming an evil trend in the sector today. We have seen another company in Reliance Communications, which too has enjoyed all the attendant benefits given to Tata Tele and Aircel, and which is now showing massive debts and declining profits each quarter.

Internal mismanagement, lack of aptitude for running a telecom business and a tendency to treat the banking sector as their personal fiefdoms, are factors which have created this situation and ironically, the companies most favored by the Indian authorities have become untouchables to foreign investors.

However, all the press seems to be doing is publishing red herring reports that attack sensible regulation, and take attention away from the real issues of the telecom sector. And in all this, these companies commit gross malpractices on a sustained basis, like kidney patients on dialysis. They fail to get rid of their waste on their own, and then ask for subsidies from the government so that they can clean up after themselves. Unfortunately, it's all too late now as the foreign investors are pulling out from India lock, stock and barrel. Let us stop using Policy Paralysis as an excuse, but introspect on the negative sentiments of the caused by the exit of these companies because of being on Dialysis.

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