

Tariff Hikes Imminent as 5G to Push TSPs' Debt to Rs 6.2 Trn in FY23

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Overview

- After 40 rounds and 7 straight days of bidding, the highly anticipated 5G spectrum auction concluded on August 1, fetching over Rs 1.50 trillion, higher than the government's expectations.
- Though most bands were sold at the reserve price, the telecom service providers, aided by path-breaking reforms announced by Union Cabinet in September 2021, actively participated in auctions.
- With an annual instalment outgo of Rs 13,400 crore towards the spectrum purchase and an investment outlay estimated at Rs 3 trillion in the next three years (FY23-25), the aggregate debt levels of the industry could surge by nearly 30% to Rs 6.20 trillion (including financial lease obligations) by end of FY23.
- CareEdge expects successive tariff hikes by operators in the next 9-12 months, along with a levy of premium charges for 5G subscribers. This could cumulatively increase the average revenue per user (ARPU) by ~ 25% by H1FY24.

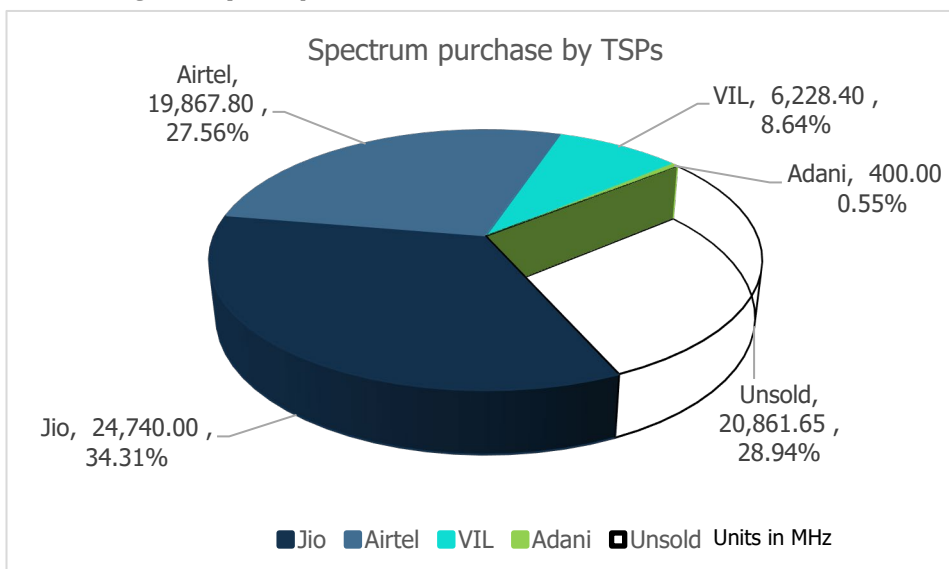
Bidding Touches All-time High

India's leading telecom operators Reliance Jio Infocomm Limited (Jio) and Bharti Airtel Limited (Airtel) emerged as the front runners in the recently concluded spectrum auction, which saw 51.23 GHz, nearly 71% of the total 72.09 GHz, being sold. Contributing around 87% to the government's all-time high revenues for the total airwaves sold on a provisional basis, the two operators are now expected to possess a pan-India 5G network.

The auction saw Jio acquire 220 MHz in the high-priced 700 MHz band at Rs 39,270 crore for efficient service coverage. Airtel and Vodafone Idea Limited (VIL) too acquired spectrum in the low-band airwaves.

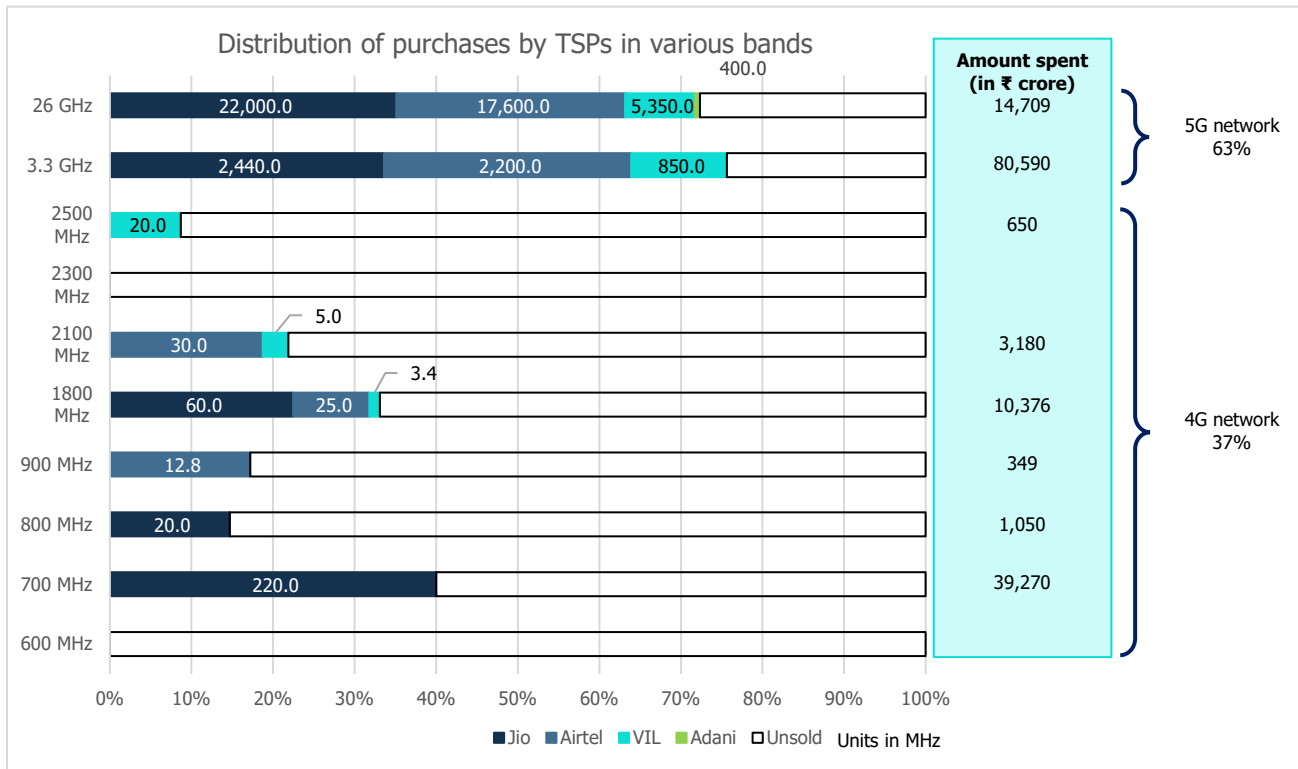
Table 1 and Table 2 show details of the auction:

Table 1: Quantity of Spectrum – Auction vs Secured



Sources: Department of Telecommunications (DoT)

Table 2: Band Distribution and Share of TSPs



Sources: DoT

The 3.3 GHz and 26 GHz (mmWave) bands witnessed maximum sales in the auction by the three TSPs and a modest bid by a new entrant, Adani Data Networks Limited (ADNL). As the 26 GHz band is primarily used for non-public networks and fixed wireless access, ADNL is expected to utilise the spectrum to deploy captive non-public networks across six circles of Andhra Pradesh, Gujarat, Karnataka, Mumbai, Rajasthan and Tamil Nadu. Meanwhile, Jio was the sole purchaser in the 700 MHz band, which is considered a premium band below 1 GHz, as it would help the operator cut costs and provide better network coverage. The same was assisted by the decrease in the reserve price of the band by around 40% from the base price of 2021.

Table 3: Bidder-wise Spectrum Quantity and Amount Payable

Particulars	Amount (in Rs. Cr)	Spectrum Won (In MHz)	% of Total Spectrum Sold
Jio	88,078	24,740.00	48.29
Airtel	43,084	19,867.80	38.78
Vi	18,799	6,228.40	12.16
Adani	212	400.00	0.78
Total	1,50,173	51,236.20	100.00

Sources: DoT

As seen in Table 3, the bidding was led by Jio purchasing 48.29% of the total spectrum sold, followed by Airtel at 38.78% and VIL at 12.26%, in its 17 priority circles. Purchase of spectrum in the low-frequency bands (600 MHz, 700 MHz, 800 MHz, 900 MHz, 1800 MHz, 2100 MHz, 2300 MHz, 2500 MHz) will enable the telcos to increase coverage and reduce network congestion in 4G network, while purchasing in the mid- and high-frequency bands (3.3 and 26 GHz) will enable the operators to offer 5G services, which is envisaged to be sufficient to deploy 5G services across all circles by the government.

The hammer price in all spectrum bands remained at the reserve price, except for the 1800 MHz band, which garnered intense bidding for the UP (East) circle that accounts for over 100 Mn subscribers. The same resulted in an increase in the per unit price of the band by nearly 80% from the base price of Rs 91 crore to Rs 163 crore.

Average Unit Price Payable by TSPs Fell Drastically

The average unit price (i.e. per MHz spectrum) payable by TSPs to the government has gone down abysmally low at Rs 2.93 crore in the concluded auction as against Rs 90.95 crore in March 2021 auction (refer to Table 4).

Table 4: Year-wise Summary of Auctions

Auction	Days of Auction	Total Spectrum Sold (MHz)	% of Spectrum Sold	Total Revenue Collection (Rs. crore)	Average Price for Per MHz Spectrum Paid by Telcos (Rs. crore)
2010	34	465.00	100	50,968	109.61
2012	2	127.50	33	9,642	75.62
2013	1	30.00	15	4,114	137.13
2014	10	353.20	82	61,162	173.17
2015	19	418.25	89	1,13,932	272.40
2016	5	964.80	41	64,809	67.17
2021	2	855.60	38	77,815	90.95
2022	7	51,236.20	71	1,50,173	2.93

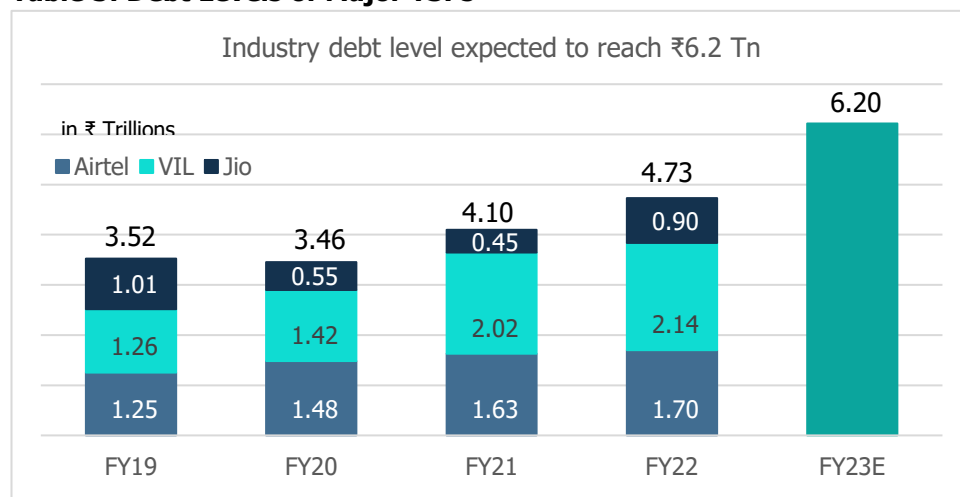
Sources: DoT, CARE Ratings

In the recently concluded auctions, spectrum has been sold mostly at the reserve price. Besides, the large offtake of low-priced mid- and high-frequency spectrum (3.3 and 26 GHz) has further pushed down the average price per unit spectrum.

Rollout of 5G Networks and Allied Investment – High Leverage Imminent

The government expects spectrum allocation to conclude by the second week of August 2022 and the rollout of 5G services to begin from October 2022. While the purchased spectrum is sufficient for coverage across the country, achievement of a complete coverage is expected to take a couple of years. This will necessitate an incremental investment outlay pegged at around Rs 3 trillion. Considering the TSPs shall opt for payments spread across the life of the spectrum i.e. 20 years, the aggregate annual instalment towards the spectrum purchase is estimated at an additional Rs 13,400 crore.

Table 5: Debt Levels of Major TSPs

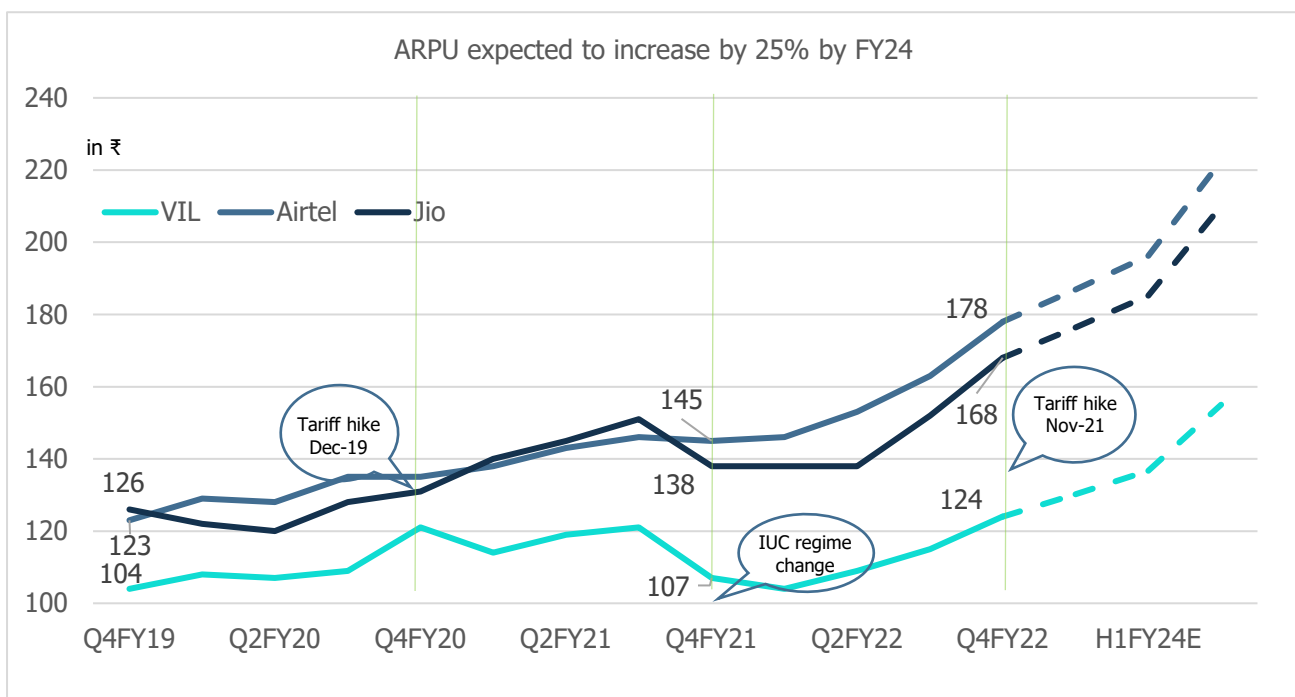


Sources: Company annual reports, CARE Ratings

Pursuant to the rigorous efforts by the government during the FY22 in alleviating the liquidity woes of the telecom industry, the auctions well surpassed the expectations. [Please refer CARE Ratings feature on the “[Telecom reforms- Liquidity succour for the players](#)” dated September 17, 2021]. The option for a moratorium of four years in payment of Adjusted Gross Revenue (AGR) and spectrum dues eased liquidity of about Rs.45,000 crore per annum for the TSPs along with the release of bank guarantee limits of ~Rs 30,000 crore, which provided additional headroom for funding investments in 5G networks/ other capital expenditure of the TSPs.

Considering the large quantum of investments required in the next two-three years, the TSPs are likely to witness an increase in leverage levels. CareEdge estimates the aggregate debt levels for the major TSPs to touch Rs 6.20 trillion by March 2023, an increase of about 30% from debt levels of ~Rs.4.73 trillion as on March 31, 2022. While telcos are likely to charge a premium on 5G rollouts, CareEdge expects steep tariff hikes to be announced in their existing 4G plans as well, to recover their large investments made through bidding.

Table 6: ARPU Levels of Major TSPs



Sources: Company reports, CARE Ratings

As seen in the above chart, the last tariff revisions were undertaken in December 2019 and November 2021. With steady acceptance at the retail level, the industry preparedness for successive tariff hikes has strengthened. The TSPs may thus be prompted to revisit the tariff plan in the next 9-12 months, which could further aid in the improvement of their ARPU levels by ~ 25%. While the wireless subscribers’ growth for the industry has remained muted for the last 3 years and is expected to remain in a similar range in the near term; growth in ARPU levels would be largely driven by subscriber migrations- 2G/3G to 4G and 4G to premium 5G networks.

CareEdge Outlook

Given the demonstrated support of the government and the sector’s rising appetite for growth capex, CareEdge outlook for the telecom sector continues to be ‘Stable’ with a positive bias. The TSPs are expected to witness increase in their leverage levels with a significant capex outlay. For now, the sector is started making the right waves, but the real litmus test will be their ability to raise tariffs in the medium-term and retain market shares to support their credit profiles.

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