Telecom reforms - Liquidity succour for the players

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In a much-awaited relief, the Union Cabinet on September 15, 2021, approved the reforms for telecom sector and announced the broad contours of the revival package. Through these reforms, the Government of India (GoI) has addressed the liquidity woes of the telecom sector to a large extent. Moratorium up to four years in payment of Adjusted Gross Revenue (AGR) and spectrum dues is expected to free up cash of about Rs.45,000 crore annually for the Telecom Service Providers (TSPs) along with release of Bank Guarantee (BG) limits aggregating ~ Rs 30,000-32,000 crore. Besides reduction in BG requirement towards License Fee (LF) & other levies (estimated to release non-fund based limits of TSPs by ~Rs.10,000 crore) and allowance of 100% Foreign Direct Investment (FDI) are bound to resurrect the confidence of the stakeholders in the medium term. For the players though the real litmus test will be their ability to raise tariffs in the near to medium term.

With the Hon'ble Supreme Court dismissing the plea seeking re-computation of the AGR dues of the TSPs, the industry had been cash-strapped with rising payment obligations to the GoI on one side and declining Average Revenue Per User (ARPU) amidst intense competition on the other. With significant investment outlay required for rolling out 5G services, TSPs have been seeking revival measures from the GoI. The measures mentioned above provide relief to the incumbent players. In CARE Ratings' opinion, while the core business performance of the individual TSPs may vary, their cash flow position in the interim period will witness improvement, supporting their credit profiles.

Key features of the announcement

The cabinet outlined nine structural reforms, five procedural reforms and further addressed the stretched liquidity of the industry through the announcement of moratorium period of four years for all dues (AGR dues and spectrum repayment obligations). All the reforms *are prospective* and will be effective from October 01, 2021. The announcements are broadly as under:

- Modification in definition of AGR wherein non-telecom revenues will be excluded for computing the same.
- Moratorium of up to four years in annual payments of AGR and spectrum dues of TSPs, subject to payment of interest in a manner that NPV of GoI is protected. TSPs will have the option to pay the interest amounts by way of equity.
- Significant reduction in BG requirement- One BG for all licensed service areas, no BGs towards spectrum installments.
- Increase in tenure of spectrum from 20 years to 30 years with flexibility to surrender the same after lock-in period of 10 years.
- Removal of spectrum usage charges (SUC).
- Rationalization of interest rates on delayed payments of SUC or LF at SBI's MCLR plus 2% to be compounded annually as against prevailing SBI's MCLR plus 4% compounded monthly with removal of the penalties
- 100% foreign direct investments (FDI) permitted under automatic route
- Fixation of spectrum auction calendar- to be held in last quarter of the FY
- Procedural changes with respect to cumbersome requirements of licenses/ clearances by replacing it with self-declaration. Further digital storage of data permitted as against prevailing paper customer acquisition forms, which were stored in warehouses of TSPs.

Positive Impact on liquidity profiles of TSPs

- Free up cash of about Rs.45,000 crore annually for the TSPs, which can be utilized towards business investments. At the same time, availment of moratorium will attract an interest component with NPV protection thereby ensuring a revenue neutral package from GoI's standpoint.
- The reforms also provide flexibility to TSPs who will have the option to pay the interest amounts, arising on account of deferment of payments, by way of ownership in the enterprise, i.e., an option to GoI to convert the amount due, post moratorium, into equity of the TSP.
- Modification in the highly argued definition of AGR by excluding all non-telecom revenue and reduction of interest rates on SUC/ LF at SBI's MCLR plus 2% to be compounded annually, will boost the liquidity for TSPs. Earlier, high interest (@SBI's MCLR+4%), compounded monthly, was being charged on delayed payments of SUC/ LF, along with penalty and interest on penalty, which created an additional burden on the TSPs.
- 100% FDI permission under automatic route as against 49% allowed presently, is indeed a welcome move which shall attract investments in this sector.
- With freeing up of liquidity, companies will be able to make investments in 5G networks, fiber optics and tower infrastructure, which will further improve the proliferation and penetration of broadband and telecom connectivity.
- The reforms are expected to promote healthy competition and protect the interest of the consumers at large. Furthermore, with the option to surrender the spectrum after lock-in period of 10 years, TSPs shall have the flexibility to exit from less revenue accretive segments. The Cabinet in its briefing hinted at introducing additional reforms after the 5G spectrum auction for facilitation of new entrants and healthy competition in the industry.
- Removal of BG requirement to secure spectrum instalment payments and rationalization through single BG requirement towards multiple licensed service areas shall taper the non-fund based exposure of banks to the sector significantly. This may provide additional head room to the lenders ~ Rs 40,000-Rs 42,000 crore for funding investments in 5G networks/ other capital expenditure of the TSPs.

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