

AGR for telcos fall by 15.6% y-o-y during January-March 2017

According to the data released by the Telecom Regulatory Authority of India (TRAI), the Adjusted Gross Revenue (AGR) for the telecom industry stood at Rs.40,831 crore during January-March 2017 quarter. This implies a fall of 15.6% on a y-o-y basis. AGR includes revenues from only telecom services.

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The fall in AGR implies a decline in revenues of the government from telecom companies as well. This is because the telecom companies have to pay license fee and spectrum usage charges (SUCs) to the government. These charges are certain percentage of the telcos' revenues and a fall in revenues of telcos impacts the government's revenues from the telecom industry.

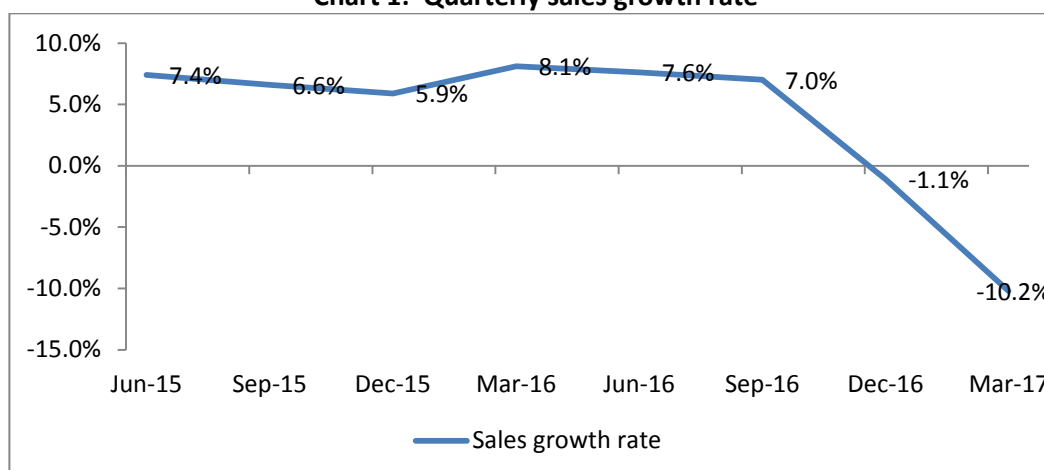
Last month DoT asked for cut in non-tax revenue target for telecom sector for FY 2017-18

In June 2017, the Department of Telecommunications (DoT) asked the Finance Ministry to cut the target of non-tax revenue from the telecom sector by around 40% to Rs.29,524 crore for the current financial year on a y-o-y basis from Rs.47,304 crore. This was on account of concerns of fall in revenues of telecom industry due to predatory pricing and intense competition in the sector.

With respect to this concern of DoT, CARE earlier estimated that other things remaining the same, the fiscal deficit estimate for India for the year 2017-18 will increase to 3.35% from the estimate of 3.24% if the telecom industry fall short of Rs.17,780 crore to meet the non-tax revenue target set by the government.

As per Union Budget estimates for the financial year 2017-18, the fiscal deficit for India is expected to be 3.24% of the country's GDP. The fiscal deficit estimate for the year 2017-18 is Rs.5, 46,532 crore.

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Chart 1: Quarterly sales growth rate

Source: Ace Equity

The revenues of the telecom service providers that grew by 7-7.6% y-o-y in the first two quarters of the financial year 2016-17 declined in each of the last two quarters in 2016-17. The revenues declined by 1.1% and 10.2% y-o-y in the December 2016 quarter and the March 2017 quarter, respectively. This was primarily on account of Reliance Jio which entered the telecom market in September 2016. Free services offered by Reliance Jio created intense competition and price war in the industry that impacted the sales during the last two quarters of 2016-17.

The sales growth however is likely to remain weak on a y-o-y basis in the initial period of current financial year 2017-18 on account of ongoing intense competition in the industry compared to 7-7.6% sales growth registered in the first two quarters of 2016-17. This will thus impact the revenues of the government from the sector in the initial period of 2017-18 as license fee and spectrum usage charges (SUCs) are certain percentage of the telcos' revenues.

Some demands raised by the telecom industry

Recently, the inter-ministerial group met the telecom operators to assess stress in the telecom sector. The telecom operators raised the following demands:

- Cut in license fee to 5% from the existing rate of 8%
- Flat 1% spectrum levy
- The deferred payment liability of spectrum be aligned to the life of spectrum i.e. 20 years with a moratorium of 5 years and repayment of 15 years

Both ways its loss of revenue for the government

The government is still reviewing the demands of the industry. However it will be loss of revenue for the government irrespective of whether or not the government fulfills the industry's demand. If license fee and spectrum charges remain same, the expected weak revenues of the telecom industry in the near term will impact the government's revenues as mentioned above. However, if license fee and spectrum charges are cut, this will further impact the government's revenue from the industry as it will reduce the percentage of charges the telcos have to pay to the government. But, a cut in license fee and spectrum charges if accepted will help reduce the cost for telecom operators to some extent.

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