

**Cabinet approves proposal for mitigating financial stress being faced by telcos**

As per the release, the Department of Telecommunication (DoT) will provide an option to the telecom companies to defer payment of the spectrum auction instalments due for 2020-21 & 2021-22, either for one or both years. These deferred amounts will be spread equally in the remaining instalments to be paid by telcos. Interest as stipulated while auctioning of the concerned spectrum will however be charged so that NPV is protected.

**Story behind approval**

On 24<sup>th</sup> October, 2019, the Supreme Court supported the DoT’s definition of AGR for telecom industry. The DoT had said that the AGR should comprise dividends, handset sales, rent and profit from the sale of scrap, besides revenue from services. The telcos however demanded that the definition should be restricted to only core telecom services. The issue with respect to definition of AGR dates back to year 2005.

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 broader base of revenues of telcos implies more payment of license fees and SUC. As per the current norms, the telecom companies pay 8% of the adjusted gross revenues as license fee and 3-5% of the adjusted gross revenues as spectrum usage charges.

With the change in definition of AGR, the two large players Bharti Airtel and Vodafone Idea accounted for the charges as exceptional items in their respective September 2019 quarter results. These charges comprise principal, interest, penalty and interest on penalty. Resultantly, the two incumbents posted significant losses during the quarter which can be seen in Table 1 below.

**Table 1: Y-o-Y comparison of PAT and exceptional items (in Rs. crore)**

	PAT		Exceptional items	
	Q2FY20	Q2FY19	Q2FY20	Q2FY19
Bharti Airtel	(24,514)	(569)	(30,815)	(50)
Vodafone Idea	(49,727)	(4,988)	(30,771)	(566)

Source: Ace Equity

The sharp losses amid price-war and intense competition made the incumbents urge government to provide them some aid to continue with their operations. Subsequently, the cabinet gave the approval to defer payment of spectrum auction instalments for two years.

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## Concluding remarks

The approval provided by cabinet comes as an immediate sigh of relief to the telcos that continue to face severe competition and witness pressure on prices. This move will enable them to defer their spectrum auction instalment payments. However, they could pay more in absolute numbers as interest would be charged. Further, this proposal does not really move the needle too much on the AGR payments issue and the government would also need to address the same as payments have to be made as per the norms stipulated by the judiciary. However, it remains to be seen how the industry reacts to this decision.

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