

## IMG measures to address financial stress

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The inter-ministerial group (IMG) which was set up to assess stress in the telecom industry has come up with recommendations to address financial stress in the telecom industry. However, the IMG did not meet all the demands raised by the telecom operators. The recommendations by IMG which came after three months are stated below:

- Extension of deferred payment period for spectrum acquisition to 16 years from the existing 10 years period
- Change in the method for interest calculation to marginal cost of fund based lending rate

The IMG however has not recommended any significant change with respect to cut in license fee and spectrum levy. The industry was expecting a cut in Universal Service Obligation Fund (USOF) levy as the industry is of the view that they have provided connectivity to most parts of the country. Currently, of the 8% license fee, the USOF comprises of 5%.

The telecom operators had raised the following demands for IMG to consider:

- Cut in license fee to 5% from the existing rate of 8%
- Flat 1% spectrum levy from 3-6%.
- 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

The IMG was formed to examine systemic issues affecting viability and repayment capacity in telecom sector and furnish recommendations for resolution of stressed assets at the earliest and also to look at policy reforms and strategic interventions for the industry.

The recommendations made by IMG will be put before the Telecom Commission and the meeting for the same is expected to be on 08<sup>th</sup> September.

### Our view on IMG recommendations:

- The extension of deferred payment period for spectrum acquisition to 16 years from the existing 10 years period will aid the

companies to improve their cash flows as the duration for which the payment is to be made will stand increased.

- As there are no significant recommendations with respect to cut in license fee and spectrum levy, the government revenue will remain unaffected. This is because the telecom companies have to pay license fee and spectrum usage charges (SUCs) to the government. As per the current norms, the telecom companies pay 8% of the adjusted gross revenues as license fee and 3-6% of the adjusted gross revenues as spectrum usage charges.
- The recommendations made by IMG do provide relief to the telecom players in the long term. However, the IMG did not consider one of the most concerned issues of reduction in license fee and spectrum levy of telecom industry that could have provided some relief to the telcos.

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