

Press Release

Prepaid tariff hikes not adequate for sustainability of telecom sector

Additional equity or asset monetization of Rs 50,000 Cr necessary for 5G rollout

- Acuité believes that the prepaid tariff hikes along with moratorium on spectrum payments announced by government will not be a complete solution for the sector reeling under acute financial stress.
- The revision in prepaid tariffs may improve the EBITDA levels on an average by 20%-25% for the existing players.
- Debt to EBITDA levels for the sector, nonetheless will still continue to be elevated between 3x-6x levels.
- The sector will continuously require capital investments for not only roll out of 5G services over the medium term but also regular upgradation of networks.
- 5G roll out is likely to get delayed beyond 2022 given the inadequate capacity of the incumbent players to bid in fresh spectrum auctions
- Therefore, rationalisation of tariffs has to be also supported by additional equity infusion, strategic divestments and asset monetization.
- Acuité estimates that the players will need at least Rs. 50,000 Cr over the next 1-2 years through such equity infusions or asset sale to ensure business sustainability and consolidation of market position.

The telecom sector in India is at an inflection point. There are only 3 large private sector telecom service operators in India down from 10 in 2014. Except for one, all the players are in severe financial distress and there are doubts on their ability to service debt over the medium term. While the sudden increase in liabilities to the government by Rs. 1.4 Lakh Cr due to a Supreme Court Order is one of the triggers for this distress, two of the existing operators have been making EBITDA losses since the last 2 quarters. The tariff levels in the industry were clearly inadequate to sustain the existing operations in the sector.

The telecom tariffs in India is set to witness a significant rise at least to the extent of 40% with two of the operators – Vodafone Idea and Bharti Airtel having already announced their revised prepaid tariff plans and the third player, Reliance Jio expected to follow shortly. This will be necessary to sustain the services of the telecom operators over the medium term. We are of the opinion that these players may also need to revise their post-paid tariffs to revive their profitability and importantly, to generate some level of cash accruals for near term capital expenditure.

Clearly, the domestic telecom sector is in no shape to make the necessary investments in 5G services. The government had announced plans to auction

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additional spectrum required for 5G early 2020. The financial position of the telecom companies already had an impact on the previous spectrum auction held in 2016-17 when only 41% of the spectrum on offer was bid out and only Rs. 65,000 Cr could be raised against the base price of Rs. 5.6 Lakh Cr; for the proposed auction in the 3300-3600 Mhz band, TRAI has proposed a base price of Rs. 492 Cr per Mhz which would translate into a spectrum outgo of Rs. 50,000 Cr for each operator (assuming a minimum requirement of 100 Mhz for 5G rollout). Such a base price is not only the highest among the nations where data is available so far but also significantly higher with South Korea for example having auction cost at Rs.134 Cr per Mhz. Importantly, the balance sheets of the operators except for Reliance Jio, may not permit any aggressive bids for 5G spectrum in the near term. Acuité, therefore is of the view that the launch of 5G networks in India may not happen over the next 2-3 years and may get postponed beyond 2022. Further, the regular capital expenditure including the expansion and upgradation of existing networks is likely to be slowed down in the near term which will have a bearing on the quality of telecom services.

It is in this context that the tariffs hikes are critical for the Indian telecom sector. The tariff hikes announced by the three players primarily focus on the prepaid customers where excessive competition for subscriber addition and market share, had led to very low average revenue per user (ARPU). The charges for voice calls had become almost negligible and data prices had dropped very sharply to an average of Rs. 12 per GB compared to Rs. 269 in 2014. The proposed hikes in prepaid tariffs may lead to a rise of 20%-25% in the EBITDA of the incumbent players since around 60% of the subscribers are in the prepaid category. Nonetheless, the study undertaken by Acuité indicates that even taking into account the gains from the revision, the debt coverage levels in the sector as reflected in the debt to EBITDA levels will continue to remain elevated between 3x-6x levels. While the relief provided by the government through a moratorium on spectrum payments for 2 years will help to an extent, the high leverage in the balance sheets will necessitate either significant equity infusion or asset monetization. Acuité estimates that the sector will need to raise equity or monetize assets to the extent of Rs. 50,000 Cr (or over USD 6 billion) over the next 1-2 years to ensure continuing investments in the networks critical for business sustainability and market share consolidation.

Table 1: Telecom Operators – Private Sector

Figures are in Rs Cr.

H1FY20	Bharti Airtel	Vodafone Idea	Reliance Jio
Gross Revenues	41869	22114	28317
EBITDA	17071	6997	9852
PBT*	-2561	-12239	2890
Debt**	133565	119552	108000
Equity	69983	28735	NA
Interest	6090	7378	3531
Exceptional Charge	32180	31582	
Debt: EBITDA@	3.91	8.54	5.48
Debt: Equity	1.91	4.16	
Market Cap#	2,36,511	22,241	

*PBT excluding extraordinary charges

**Debt figures are as on March 31, 2019, for Jio, some figures are estimates

@Debt to EBITDA based on annualised EBITDA estimates without taking into account tariff revision

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