



Reforms announced by the government are a much-needed breather for the telecom sector from the AGR heat: Brickwork Ratings

Brickwork Ratings, 15 September 2021, Bengaluru: The telecom sector which has played a crucial role during the pandemic has been struggling from quite a while now and seeking government support to tide over the crisis. The sector on various platforms have asked the government to address certain issues involving license fees, spectrum pricing & payment and payment of AGR dues.

Therefore, the government had addressed these concerns and announced a slew of reforms providing much needed breather to the telecom sector. The biggest relief has come in the form of redefining the AGR which will now exclude all the non-telecom revenue and extending a moratorium of 4 year on the government dues. This will immediately ease out the stress on the cash flows of the telcos to a great extent especially Vodafone Idea Ltd (VIL). The telcos were to pay the first instalment of AGR dues in March 2021 and spectrum payments were also supposed to start from April 2022 onwards. VIL had to shell out an amount in the range of Rs. 8,000-9,000 crore towards the AGR payments by 31 March 2022 and an amount in excess of Rs. 15,000 crore during FY23 towards the spectrum payments. The moratorium will help the company in conserving the liquidity which in turn can be used for debt repayments and capex requirements. The telcos however, will have to pay an interest of MCLR+2% during the period of moratorium.

Vipula Sharma, Director – Ratings, Brickwork Ratings (BWR), said *“The announcement by the government provides much needed breather to the telecom sector. It will immediately ease out the stress on the cash flows of the telcos to a great extent. While all these reforms are definitely a step in the right direction, the woes of the sector will be solved only if there is an increase in the tariffs as well.”*

In addition, the announced measures including abolishment of penalties on license fee and spectrum usage charges, annual compounding of interest rates in place of monthly compounding and rationalising the interest rates to MCLR+2% on these dues, increasing the spectrum payments tenure to 30 years (from 20 years) and option to surrender additional spectrum after a lock-in period of 10 years will improve the viability of the sector.

While all these reforms are definitely a step in the right direction, the woes of the sector will be solved only if there is an increase in the tariffs as well. Unless the ARPUs move closer to Rs.200 levels, it will be difficult for the telcos to generate any meaningful returns. Therefore, the next step for the government should be to sort out the long pending floor tariffs matter and establish a healthy tariff regime in the sector.



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