Deferment of spectrum dues and possible tariff hikes a positive but AGR overhang remains

Brickwork Ratings, Mumbai, 21 November 2019: The Finance Minister in her press conference on Nov 20, 2019 announced that the cabinet has approved deferment of the spectrum dues for FY21 and FY22, although the interest as stipulated in the terms of assignment will be charged as it is. This announcement is expected to improve the cash flows for the telecom players but it will not have net benefit on their balance sheet as they have to pay the fees along with interest charges after two years. For two large telecom players, the stress on the immediate liquidity will ease to the extent of nearly Rs. 42,000 Crore. However, it is unlikely to have an impact on the overall sectors financial health as the leverage on balance sheet is expected to continue to remain high.

Though, this is a positive step for the sector, there is still no clarity whether there will be any relief on the adjusted gross revenue (AGR) front. This ruling resulted in an additional liability of more than Rs. 1.30 Lakh Crore for a sector already saddled with a debt of above Rs. 4 Lakh Crore. Relief on this front will be key to the financial health of the telecom players.

Moreover, the announcement of the proposed tariff hikes by all the players is a credit positive for the sector especially for Bharti Airtel and Vodafone Idea. While, the exact impact of the same on these companies' profitability will depend on the quantum of hike in tariffs, even a 10% hike in tariffs could bring down their losses by 30 - 60%.

Nevertheless, the move indicates that the Government has taken cognizance of the dire situation and may come up with more measures in the future to maintain viability as well as healthy competition in the sector.
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