Brickwork Ratings says telecom reforms not enough

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Brickwork Ratings, a credit rating agency that gives advice on the ability of companies to service their debt, has hailed the slew of measures announced by the government yesterday to give relief to the telecom sector, but added they're not enough to save the industry.

FLIP FLOP

The most import measure announced yesterday was a decision to allow telecom companies to start paying various dues only after a four-year moratorium period.

This has again made it possible for a key player, Vodafone Idea, to avoid bankruptcy for the next four years.

The government also tried to undo some of the damage caused by a judgment by a Supreme Court bench headed by Arun Mishra in 2019.

The bench had acceded to the government of India's long-pending demand that telecom companies should pay a part of their non-telecom revenue as part of their telecom revenue share agreement with the government. This judgment heaped liabilities to the tune of around Rs 1.2 lakh crore on various telecom companies.

After winning the appeal, though, the government seems to have lost its appetite for the increased revenues, and has now promptly rolled back the provision and restored the status as it existed before the bench ruled in its favor. However, it remains silent about abrogating the extra liabilities of Rs 1.2 lakh cr that the ruling created for the companies.

Under the 'reforms' announced yesterday, the government said it was redefining revenue to exclude non-telecom revenue, after having conducted a decade-long legal fight to get the courts to rule that revenue means all revenue.

Still, the decision to exclude non-telecom revenue from the scope of revenue sharing has been hailed by industry observers, including Brickwork Ratings.

"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," it said.

"This will immediately ease out the stress on the cash flows of the telcos to a great extent especially Vodafone Idea Ltd (VIL)."

The rating agency pointed out that the absolutely cash-strapped company was required to pay the first instalment of AGR dues in March 2021. 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," it said.

The 'reforms', however, will only provide short-term relief, as each of these companies are still bound to pay around Rs 50,000 cr plus interest after the four-year relief period runs out.

For this, pointed out Vipula Sharma, Director of Ratings at Brickwork, the companies must raise their prices and improve their cash flow.

"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," he noted.

"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" the ratings agency added.

"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."