

# Muted ringtone: Telecom revenue slips for 3rd straight year in FY19

But analysts expect FY20 to fare better as costs will stabilise

ROMITA MAJUMDAR  
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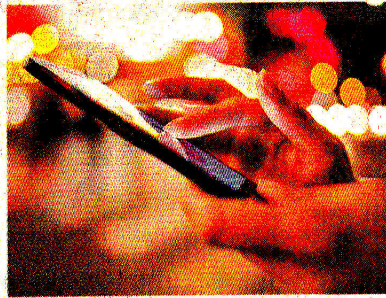
The telecom sector will witness the third consecutive year of revenue decline despite consolidation in the industry. This is because operators continue to face intense pricing pressure.

The industry as a whole has not managed to raise average revenue per user (ARPU) to sustainable levels and the capex and debt burden of operators have spiralled out of control, said analysts.

Analysts expect the sector's revenue to dip by 7 per cent in FY19 over the previous year, while earnings before interest, depreciation, tax and amortisation or Ebitda would decline by around

18 per cent. Ebitda is an indicator of a company's operating profitability. This, however, is better than FY18 when the sector had witnessed a 11 per cent revenue dip to ₹2.1 trillion and an 18 per cent dip in Ebitda. FY17, too, had seen 11 per cent drop in revenue, while the Ebitda decline was around 7 per cent.

Rating agency ICRA, however, expects minor improvements with revenues estimated to grow by 6 per cent and Ebitda by 20 per cent in FY20. However, these come off a lower base and will still be significantly lower than the peak of FY16. At the current subscriber level, the industry ARPU would have to improve from ₹116 (per month) in FY18 to ₹155 for the industry to achieve FY16 revenues levels (assuming non-mobile revenues remain the same), noted Motilal Oswal



analyst Gautam Duggad.

Harsh Jagnani, sector head & vice-president, corporate ratings, ICRA, noted that, "Based on Q3 trends, the decline in ARPU has been arrested and

the incumbent operators are looking for triggers for upward movement, with some operators implementing minimum recharge plans. FY20 can witness the benefits of higher data usage, and a relatively more consolidated and stable industry structure resulting in some pricing discipline."

The telcos, however, have planned deleveraging initiatives to the tune of around ₹90,000 crore to ₹1 trillion. However, pressure on cashflow generation of the sector, in addition to need for continued capex, has kept the debt levels elevated, estimated to be at ₹4.75 lakh crore by March 2019, ICRA noted.

Motilal Oswal noted in a recent report that unlike Bharti's fund raising plans, which will help it deleverage the balance sheet significantly, Vodafone Idea's estimated annual capex requirement and interest burden of over ₹20,000

crore in FY21 may not be fulfilled even with an optimistic Ebitda of ₹12,600 crore.

Thus, without an ARPU increase, it may need another round of fund raising to survive. But, given the cash flow and capex requirements for telcos and the current price plans offered, there exists a huge opportunity to increase ARPU.

"There is a huge gap between the product capability of Vodafone Idea and Reliance Jio due to under investment in the former's network. This could reduce over the next 12 months as Vodafone Idea has aggressive capex plans to bridge the gap and provide robust 4G coverage," Duggad noted.

According to the latest TRAI subscription data (January 2019), Bharti Airtel and Vodafone Idea lost 10.8 million active subscribers, potentially on account of implementation of the minimum ARPU plans while Reliance Jio's active subscriber addition slowed to 6.3 million.