

‘Telecom sector outlook negative on AGR dues’

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Rating agency Icra has maintained a negative outlook for the Indian telecom industry, which is grappling with AGR dues, notwithstanding the green-shoots of recovery.

The telecom industry woes, according to Icra, continue as the industry is required to pay a substantial amount to the Department of Telecom in the form of retrospective AGR related dues.

These amounts, as per the Supreme Court order dated 24 October 2019, are sizeable (including the interest and penalties) and in the event of an outflow towards these payments, it will create additional pressure on the balance sheet of the telecom operators, depending on the funding mix.

This comes at a time when the industry's health was on the recovery track, on the back of deleveraging initiatives, moderation in capex intensity and restoration of pricing power.

The sector has passed through a phase of turbulence during the last few years, with intense competition and pricing pressures leading to a decline in revenues and profitability.

Consistent downward revision in prices resulted in one of the steepest falls in the industry average revenue per user (ARPU) levels with the estimated blended ARPU falling from Rs. 169 in Q1 FY2017 to Rs 124 in Q1 FY2020; the industry adjusted gross revenue (AGR) fell from Rs 44,570 crore to Rs. 28,650 crore in the same period.

The overall high operating

leverage of the industry meant that the decline in revenues percolated to pressure on profitability and cash flows.

Further, the industry is saddled with elevated debt levels and consistently high capital expenditure (capex) requirements.

The debt has consistently remained high owing to reduction in organic cash flow generation and consistently high capex requirements.

As per Icra estimates, the debt as on 31 March 2019 stood at Rs 5 lakh crore. The private telecom operators undertook deleveraging measures during FY-2020, which included rights issue by Bharti Airtel and Vodafone Idea, IPO of the African operations by Airtel and hiving off of the tower and fibre assets by RJio.