

Telecom crisis needs urgent solutions

The sector's rising debt and falling revenues will impact broadband penetration and act as a drag on growth

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The Indian telecommunications sector can be considered one that has taken the country into the 21st century. In fact, if it wasn't for the post 1995 liberalisation, and the consequent entry of private telecom service providers, India would likely still be witnessing sub 1 per cent GDP growth rates, as opposed to the 6 per cent being witnessed over the last few years.

With more than a billion mobile phone subscribers, 40 per cent of which are accessing the Internet via their phones, this is only expected to go much higher. The sector contributed as much 6.25 per cent to the GDP, a number expected to go up to 8.2 per cent in another three years.

But despite this, the sector is currently facing its worst phase ever and needs the government to step in. The sector is currently finding it increasingly difficult to manage its cumulative debt of almost ₹5 lakh crore, with revenues of less than ₹1.8 lakh crore, and steadily falling. Much of the ambitious plans of the government like Digital India and Smart-cities are dependent on the sector and its sound financial health.

This is perhaps why the government formed the Inter-ministerial Group (IMG) to look into the deteriorating health of the telecom sector.

Bold, but not enough

This formation of the IMG was an acknowledgment, from the Government, that they were cognisant of the current crisis. The deliberations which began three months ago, took stock of the situation by meeting all the stakeholders, who recommended a number of short-term and long-term measures. The suggestions included lowering levies such as annual licence fee and spectrum usage charges (SUC) as well as the goods and service tax (GST) to a

level apt for an essential service like telecom.

The telecom service providers pay as much as 30 per cent of their revenues in taxes and levies for spectrum and operating licences. Of this, around half was the tax component. Under the Goods and Service Tax regime (GST), this has gone up to 18 per cent, making the services more expensive at a time when it should have been reduced. Essential services have either got a nil GST rate or the lowest slab of 5 per cent.

While it looks like the IMG has made some bold recommendations — reportedly the panel has suggested the deferring of spectrum auction to the next fiscal, more time for payment of auctioned spectrum and a cut in interest rates. However, this may still not be enough.

The fact is these recommendations address only debt issues of the sector, not fundamental concerns. There is an immediate need for relief on licence fees and spectrum usage charges as recommended by the telecom regulator. Unless these issues are not resolved, the industry will continue to struggle financially.

The fact is money made from spectrum auctions should be seen as adequate and the annual charges should just be used to cover administrative expenses.

Green shoots?

Reportedly, the IMG is seeing green shoots of recovery in the sector. This is unfortunately not the case. Ratings agency, ICRA expects that sector revenues will fall 6 per cent this financial year and Ebitda will fall as much as 28 per cent. Debt is estimated to rise by another ₹20,000 crore. This, at a time when new 5G mobile technology based services like IoT and M2M are almost ready to be rolled out.

India's telecom tariffs are some of the lowest in the world with average revenues per user at \$2.5, compared to Canada's \$49.84 or



Confused outlook Indian telecom needs more innovation and investment BLOOMBERG

\$38.09 in the US or even \$8.36 in China. The current hyper competition has left India's telecom service providers unable to raise tariffs. The service providers are also facing significant competition from over-the-top operators like WhatsApp, that don't pay anything to the government — in tax or levies.

On a sequential basis, the adjusted gross revenue (AGR) or revenue after deducting what does not accrue to the telco, like service tax) fell by 11 per cent to ₹40,831 crore in January-March 2016-17 compared to ₹45,905 crore in October-December. On a year-on-year basis, the decline is steeper at 15.6 per cent. The industry had reported an AGR of ₹48,379 crore in Q4 FY16. Leaving out the AGR, the latest TRAI data shows that the industry's gross revenues for January-March quarter stood at ₹63,315 crore, a sequential decline of 4.84 per cent and a year-on-year fall of 7.35 per cent.

The fact is that there are enough precedents for the government to change the rules, as the context changes. In the late 90s when the sector was on the brink of collapse, much like today, then Prime Minister, Atal Bihari Vajpayee

moved the sector from a fixed license fee model to a revenue share arrangement under the "public policy doctrine". While the changes needed now are not as drastic, there is an immediate and urgent need for them.

The need of the hour is for the government to see the sector as an essential service and not a revenue generator.

The importance of the sector is irrefutable. Deloitte, in a report on the economic impact of mobile phones, estimates that for a given level of mobile penetration, a 10 per cent substitution from 2G to 3G increases GDP per capita growth by 0.15 percentage points.

Similarly, doubling of data use leads to an increase in GDP per capita growth rate of 0.5 percentage points.

And further, a 10 per cent increase in penetration of increases total factor productivity in the long run by 4.2 percentage points.

Money matters

Then there's also the fact that telecom is the second highest revenue earner for the government, after income tax.

The sector is expected to contribute as much as 90 per cent of

the government's non-tax revenue.

Digital India programme is also almost completely dependent on the telecom sector. The roll-out of broadband and Internet services requires enormous investments to the tune of ₹2.5 lakh crore over the next 3-5 years for spectrum, technology, equipment and fibre-optics backbone.

The financial health of the telecom industry has to be safeguarded. Mobility services have brought significant changes to the lives of people.

Farmers and fishermen are able to get produce to markets better and secure better prices. The sector employs as many as 4 million people, more than half of which are indirectly employed.

What is needed is a regulatory environment which facilitates innovation and investment, and addresses the financial woes of the sector. The Government has to work with the sector rather than squeeze it for everything it's worth, in order to achieve a digitally empowered India.

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