

Telecom losses, the Outcome of Policy Paralysis

The CEO of Vodafone Group, Nick Read sounds quiet pessimistic when he refers to the atmosphere of uncertainty in Indian telecom sector owing to which Vodafone-Idea is passing through rough financial phase. Even, the chairman of Airtel, once known as the poster boy of Indian telecom, Sunil Mittal, seems to be of same opinion. He feels that the current situations have posed a question on the existence of the telecom [companies in India](#). The quarterly results of the companies also paint a grey picture, confirming the downturn. Government companies like BSNL and MTNL are undergoing enormous financial crisis and are looking for a government bailout. They have announced for VRS schemes and over 92000 employees have so far opted for it.

Telecom industry appears to be under the impact of the Domino effect or chain Reaction, wherein, even a tiny ripple creates great turbulence through multiplying effect at very stage. This effect began when few telecom companies bid immoderate amounts in their longing to get control of spectrum and subsequently persuaded the then government to change the upfront fees to a revenue share under the New Telecom Policy, 1999. Then came the limited mobility controversy in 2001, wherein fixed-line telephony operators were given access into the sector through the back door. Just when a settlement was reach and the sector was opening to settle, the 2G spectrum scam broke out in 2008. The condition of three GSM and two CDMA operators in each telecom circle was sidelined and 122 licenses were granted on first come first basis, giving just few hours for applying for the auction of spectrum. The result was, 9 to 10 players on an average in every circle creating a throat cut price war and tremendous pressure on the balance sheet of these companies, despite the fact that in 2008 the telecom density of the country was just 30 percent There was a dip of over 50 percent in the telecom rates and the eight new players invested around 40,000 crores in just few years and acquired 8 percent of market share i.e over 70 million subscribers. Perhaps considering the long-term benefits everyone remained silent and kept on moving.

With the advent of data revolution in 2010, government earned approximately 6,77,000 crore and 38,500 crore rupees respectively from auction of 3G spectrum and wireless broadband. During this time six major operators; Reliance Communication, Airtel, Vodafone, Idea Cellular, Tata Tele services and Aircel together paid 50,628 crore rupees to purchase license for 3G services in many circles. Companies invested huge amount on infrastructure development and banks contemplating telecom sector as sunrise sector disbursed plentiful loan to the companies. This was perhaps the prelude of the accumulating debt problem for the sector as the companies borrowed intensely to pay for the high spectrum prices.

At this point of time the average revenue per user started declining but the experts were quite optimistic for the long term profits. The small companies started suffocating and the phase of consolidation began for balancing the situation. What made the situation even worse was heavy default' in 3G services. Excessive expenditure and lack of asset utilization resulted in declining net profit, in spite of increase in gross revenue of the companies and the balance sheet took a downturn. In 2011, government came up with new telecom policy which separated license with spectrum. Earlier the companies could purchase the license for a definite period and give the services but under the new system with the expiry of license, spectrum also expired and the companies had to again pay separately for both licence and spectrum to refooster the services. Before the conditions could improve and the companies could reap the benefits and profits from 3G, technology, changed and 4G knocked the door. This was a revolutionary change.

Around 2014, the government allotted the licence for 4G. Amidst high spectrum prices and limited business potential of circles, the situation for telecom operators become very difficult as no market players could overlook buying the 4 G spectrum and get into a serious business pitfall. In all government earned 61,000 crore of rupees from the disbursement of license in 2014.

The Supreme Court in 2012 cancelled the licenses of 122 defaulter telecom companies of 2 G scam. The decision forced operators like Etisalat, which owned a 45 per cent stake in Swan Telecom, to shut down. Other companies like Sistema, Telenor and Videocon, having lost their licenses, participated in future auctions but not as the strong pan-Indian players that they earlier aspired.

Videocon Telecom had won licenses for 17 circles, which they later lost. Thereafter Videocon participated in auctions and won spectrum for six circles, it hardly made any difference in the telecom market and eventually closed its operations earlier

this year. Sistema, merged with Reliance Communications this year even after investing over \$ 4 billion while Telenor, sold off its mobile business to Bharti Airtel, despite of buying 22 licenses in 2012, Breezing entry of Reliance industry in 2016 for 4G services further created a huge disruption in the sector. With free voice calls and data services priced at a massive discount, Reliance Jio, caught many players off-guard. The massive market expansion by Reliance Jio, triggered the phase of consolidation. Airtel purchased Tata teleservices & unicolor and Idea and Vodafone merged to become Vodafone Idea. A price war started between the companies to counter the low tariffs of Jio plans which negatively affected the balance sheet of the competitors. During last two decades, this sector came down to trash. Lacs of jobs were lost and crores of rupees of banks and investors turn into NPA. As per the records of RBI, the telecom companies owned total of 10,97,61 crore rupees by August 2019. The exposure of State Bank of India in this sector is of approximately 40,000 crores Rupees.

Talking about the revival of the sector; something revolutionary has to be planned. There has to be stability in government policies and these policies should be on level playing field. The issue of base pricing of spectrum and license has to be resolved. Soon the auctions for spectrum for 5G will start. One has to understand that in telecom sector the phase of exponential growth is over.

The verdict of Supreme Court on Adjusted Gross Revenue (AGR) issue has already come and the companies will definitely file a review petition. Seeing to the current situation government, in its relief package should allow the companies to pay their outstanding amount in installment along with having a soft view on the outstanding interest. Out of the total outstanding amount of rupees 2,84,50 crore the principal amount is only 6,164 crore and rest 3760 crore are penalty and 6307 crore rupees are interest on penalty. In the same manner the slab of 18 percent of GST on mobile services should also be considered as communication is no longer a luxury but a necessity.



(Prof Mahima Birla)

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