



## Modi's Catch-22 as telecom debt piles up

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*Jio steamrolled rivals' pricing strategies, leaving them to lick their wounds already inflicted by the regulatory slip-ups*

Rs 4,00,000 crore! That is the debt burden carried by Indian telecom companies and the fountainhead of a mammoth financial and operational crisis now staring in their face. Just as the RBI-ordered June-30 deadline for bank boards to review their telecom exposure nears, Arundhati Bhattacharya, chairman of State Bank of India, has called the debt "highly unsustainable" for the banking sector, even though SBI's exposure is among the lowest.

The news is worrying as Rs 4 lakh crore is around 40% of banks' total stressed assets (gross bad debts plus restructured assets), estimated to be around Rs 10 lakh crore today. The figure is much more than total farm loan waivers if all states write mers' loans in the run-up to 2019 general elections, estimated to be around Rs 2.6 lakh crore, which could potentially drill a huge hole in state finances, as quoted by BofA Merrill Lynch Global Research.

Bhattacharya's confidential letter to telecom secretary seeking duty waivers and deferred spectrum payments to salvage the bleeding telecom companies landed 'safely' on the social media. She said the total EBITDA (earnings before interest, taxes, depreciation and amortisation) of companies on an annualised basis, at Rs 65,000 crore, is clearly unsustainable for their massive debt. Deteriorating debt-to-EBITDA ratio suggested that fresh funding for expansion would be difficult to come by. In fact, Reliance Communications is staring at 'default' as its consolidated debt levels continued to surge leading to a debt-to-EBITDA ratio of 8.5x, says Moody's.

Bharti Airtel, the country's largest telecom services provider, reported its lowest quarterly profit in four years as earnings fell 71% to Rs 373 crore in the January-March period. The second largest mobile carrier, Vodafone India reported lowest-ever revenue per user (Arpu fell 10% from the previous quarter to Rs 140 in March quarter). The Aditya Birla Group-owned Idea, the country's third-largest telecom operator, posted the second straight quarter loss, with a consolidated net loss of Rs 326 crore during January-March.

The reason? They were all compelled to slash tariffs to counter free services offered by Reliance Jio.

But can one squarely blame Jio's entry for all their woes?

Jio steamrolled rivals' pricing strategies, leaving them to lick their wounds already inflicted by the regulatory slip-ups. The sector, once a darling of stock markets, had already met its first nemesis in a nasty spectrum scam that led to the cancellation of licenses by the Supreme Court. The companies struggled but

came out of the chaos, not unscathed though, and managed to increase mobile penetration in India. Banks, which were facing a poor credit offtake from other sectors, happily supported the purchase of spectrum through auctions and their business expansion.

Bankers now insist that regulatory charges need to be rationalised. Mobile companies have demanded reduction of the license fee to 5% from 8%, and spectrum levy at 1%. They also want the deferred payment liability of spectrum to be aligned to the life of the airwaves (20 years) with a moratorium of five years and repayment of 15 years.

This but leaves the government in a Catch-22 situation. A bailout deal for Mittal, Ambani and Birla may force opposition rant over crony capitalism. And its absence may lead to a pile-up of bad debts. A tough call for the government, surely.

*The writer is editor, DNA Money. He tweets at @AntoJoseph*

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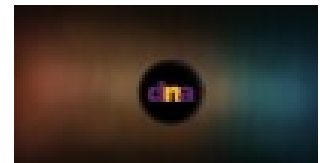
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