

AGR verdict: Banks fear additional stress from telecom service providers

Intense competition among telcos had already impacted financial profile of firms and court judgment would now only add pressure to burden of paying interest and principal: Senior executive with SBI

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Banks are bracing for additional stress on their exposure to telecom service providers following Supreme Court's ruling on Thursday that the existing definition of adjusted gross revenue (AGR) will prevail. The verdict is expected to put pressure on the telecom companies' debt repayment capacity,

leading to higher risk of defaults.

Senior executive with State Bank of India (SBI) said the intense competition among telecom players had already impacted financial profile of the firms and the court judgment would now only add pressure to burden of paying interest and principal. Telecom companies may seek additional time for payments and if this demand is acceded to, it may bring in some relief, the SBI official said.

There is also case of now defunct Reliance Communications, which is at the National Company Law Tribunal (NCLT). The implications of court verdict on repayments and fallout on lenders are not clear, public sector bankers said.

According to the Reserve Bank of India data, banks' exposure to telecom sector rose to Rs 109,761 crore in August 2019, from Rs 82,034 crore in August 2017. SBI's exposure to industry rose to Rs 37,330 crore as of June 2019, from Rs 20,327 crore a year ago. Analysts said top three telecom players, including Vodafone Idea and Airtel, will now have to pay around Rs 50,000 crore to the Department of Telecommunications (DoT).

The issue had been dragging for the past 14 years with the telecom providers and DoT locked in a battle over the definition of AGR. While the telecom providers insisted that AGR only included revenue from core operations, DoT maintained that it also included revenue from operations, other than core ones.

AGR assumes significance because it is the basis on which the DoT calculates levies payable by operators. Telecom companies pay 3-5 per cent and 8 per cent of the AGR as spectrum usage charges and licence fees, respectively, to the DoT.

Sachin Gupta, senior director at CRISIL, said there would be pressure at industry level due to burden of additional payments. The telecom firms may have to raise additional resources (via equity and debt) to pay money to the government.

India Ratings and Research, in its August 2019 report, maintained that a negative outlook on the telecommunications services sector for the remainder of FY20. The credit profiles of telcos will remain under pressure in the medium term due to intense competition, elevated debt levels, and continued reliance on capital infusion for debt servicing and capital expenditure.

The aggregate gross debt of Vodafone Idea, Airtel (India business), and Jio at FY19-end stood at Rs 3.9 trillion, implying gross leverage of over 8x for the sector. Their liquidity profiles are structurally weak as free cash flows are likely to remain negative over FY20-FY22 due to high capex intensity (Rs 1.2 trillion in FY19).