ICRA

OUTLOOK
FY2022

OUTLOOK FOR TELECOM

Tariff hikes to drive growth in revenues; improvement in debt metrics likely

December 2020

Outlook for FY2022 for key metrics

Revenues and Profitability

Tariff hikes in December 2019 and upgradation of subscribers resulted in revenue growth in FY2021. Another round of tariff hikes is on the cards, which is expected to drive the revenue growth for FY2022. Further, high operating leverage is likely to result in improvement in profitability as well.

ARPU

Steady up-trading and upgradation of subscribers to 4G services, increase in usage and expected tariff hikes to drive the ARPU levels upwards.

Debt Levels

While some moderation in debt is expected in FY2022, it would continue to remain high. Notwithstanding deleveraging initiatives over the last 18- 24 months and improving operating metrics, the addition of debt pertaining to the AGR liability and the spectrum debt for the proposed spectrum auctions are likely to keep the debt levels elevated.

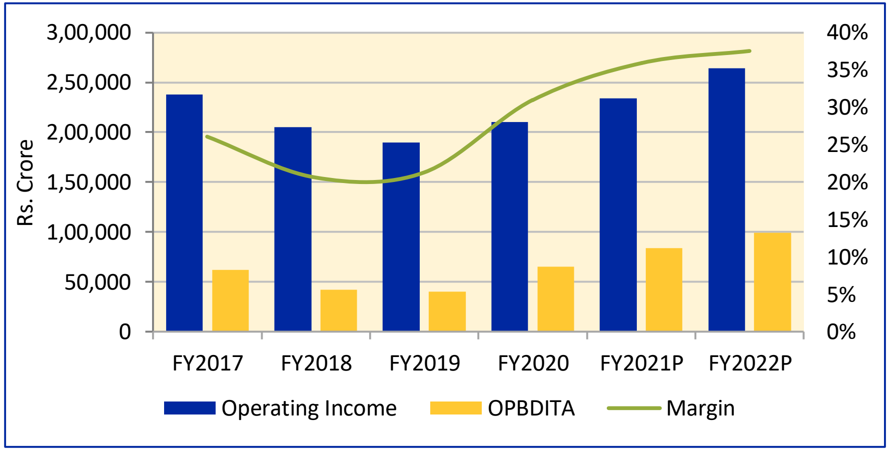
Regulatory Uncertainties

With clarity on the AGR issue, post the Supreme Court verdict, there is a resolution of the regulatory overhang and majority of the regulatory uncertainties have faded away.

Steady recovery continues in the sector

- After a period of intense competition, which manifested into one of the steepest falls in revenues and profitability, the industry revenues are expected to grow in FY2021. This was on the back of tariff hikes and regular upgrades from customers.
- Industry players are expected to announce another round of tariff hikes in FY2022. A glimpse of this was evident in VIL raising tariffs in few of its postpaid plans recently. Timing and the quantum of the tariff hikes remains to be seen.
- Tariff hikes and subscriber migration to 4G services is expected to result in revenue growth of around 13% for FY2022, following a 11% growth in FY2021. Consequently, given the operating leverage, operating margin is expected to expand to 37.5% for FY2022, up from 31% in FY2020.

Exhibit: Movement of industry operating income and profits



Source: *ICRA research*

Debt levels to continue to remain high

Exhibit: Movement of industry debt levels

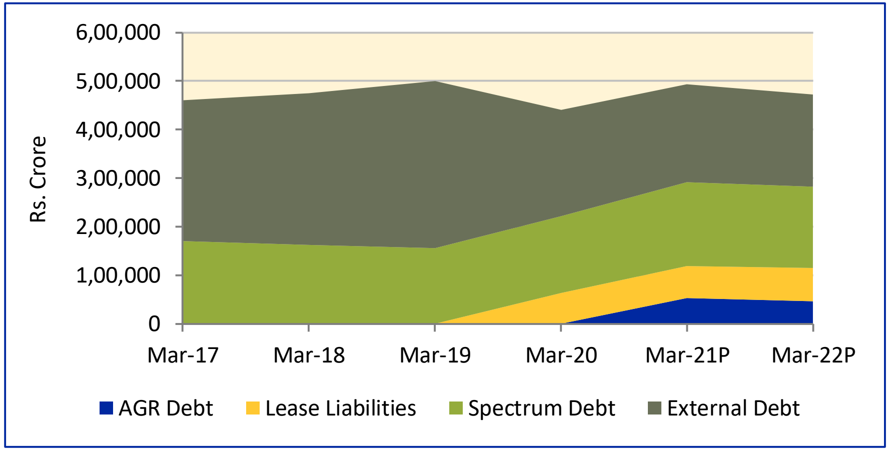
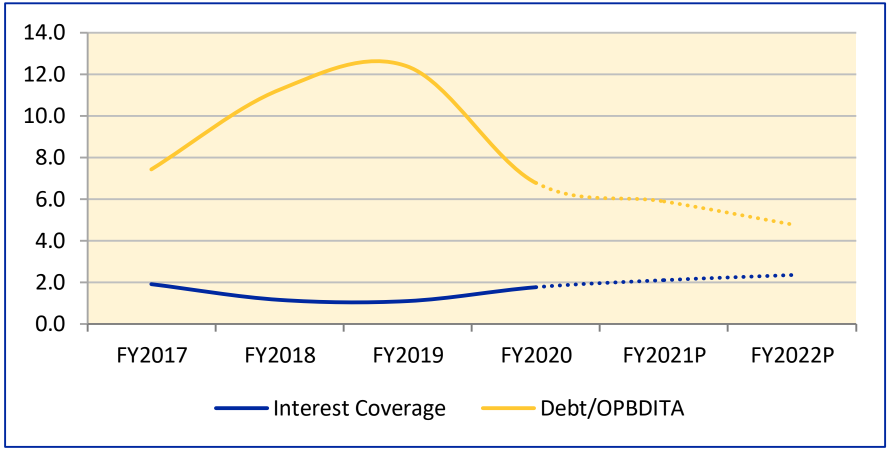


Exhibit: Movement of industry credit metrics



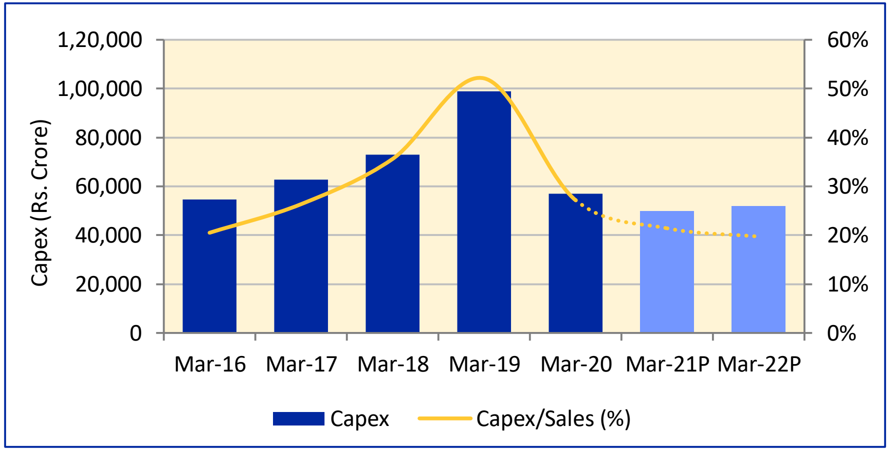
Source: *ICRA research*

- The debt levels continue to remain high for the industry and are estimated to be around Rs. 4.9 lakh crore for FY2021. Despite a moderation expected in FY2022, the debt levels would continue to remain high at around Rs. 4.7 lakh crore.
- Despite the improvement in credit metrics (interest coverage - 2.3x and debt/OPBDITA – 4.8x), they continue to remain weak for FY2022.

Capex intensity to witness moderation

- The capex intensity remained elevated till FY2019 as the telcos were investing heavily in networks to gear up for 4G.
- The intensity peaked in FY2019 and thereafter started tapering off as the network was largely deployed.
- The next round of capex will be technology upgradation to 5G. Till that time, the capex intensity is expected to continue to remain low at around 20%.
- Despite this decline, the capex intensity would be higher than the global average of around 17-18% as they benefit from well-established and mature networks

Exhibit: Movement of capex and capex/sales for telecom industry



Source: *ICRA research*

Summary

FY2022 Outlook; NEGATIVE

REVENUES	OPM	TOTAL DEBT	DEBT/EBIDTA	INTEREST COVER
13% Growth	**38%**	**Rs. 4.7 lakh crore**	**4.8x**	**2.3x**
Revenue growth driven mostly by improvement in ARPU and usage	Given high operating leverage, revenue growth results in higher-than-proportionate increase in margins	Total Debt continues to remain high, with addition of AGR liabilities to debt as well as proposed spectrum auctions	While there has been a moderation in the debt coverage metrics with improvement in profits, the metrics continue to remain weak	Interest coverage improved steadily with improvement in profitability

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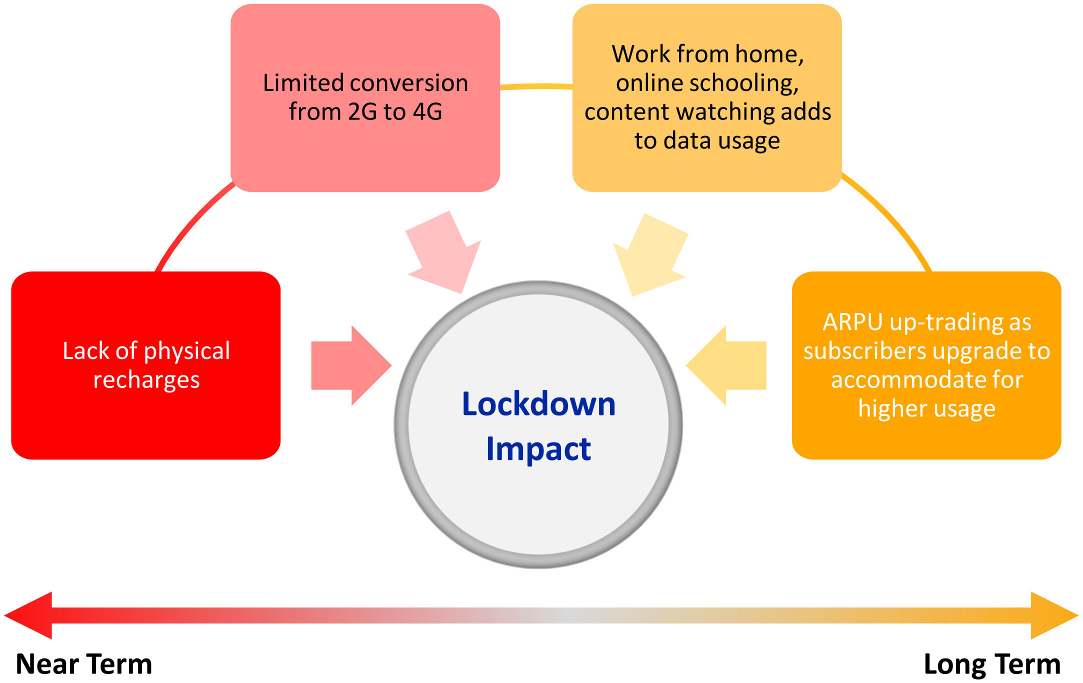
RECENT TRENDS

Telecom sector remained resilient during the lockdown

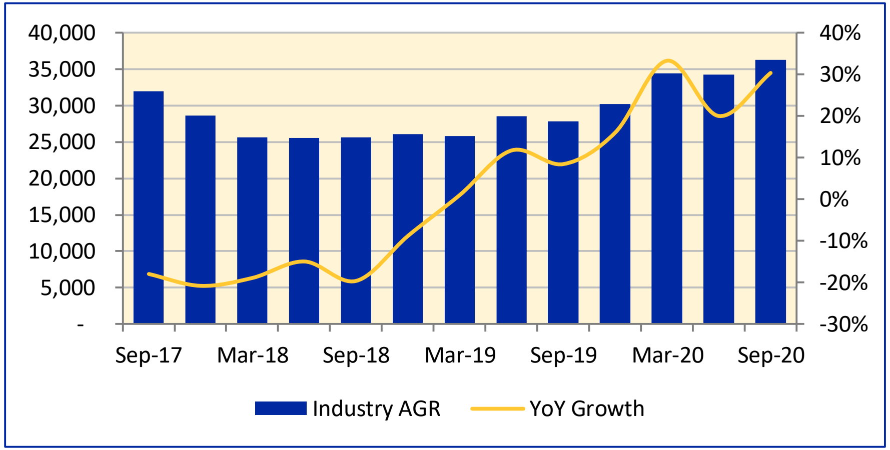
- Telecom had a minimal impact of the lockdown, being characterized as essential service
- Initially, the impact was on account of lack of physical recharges and extension of incoming facilities provided to the low ARPU subscribers
- However, with the increased usage and impact of first round of tariff hikes, the industry AGR improved substantially in H1 FY2021, and the growth is likely to continue



Industry AGR witnessed healthy growth

- Industry AGR witnessed a growth of 25% in H1 FY2021
- This was driven by increase in industry ARPU (as reported by TRAI) to more than Rs. 90 for H1 FY2021, from Rs. 74 for H1 FY2020, reporting a growth of 24%
- While the ARPU for state-owned telcos remain lower, the same for private telcos is almost double that of state owned telcos.
- RJIL remains the market leader in terms of revenues with revenue market share of 37%, followed by BAL at 32% and VIL at 21% for Q2 FY2021.

Exhibit: Movement of industry AGR (Rs. Crore)



Source: *ICRA research*

Data usage increasing at a healthy pace

Exhibit: Wireless data consumption

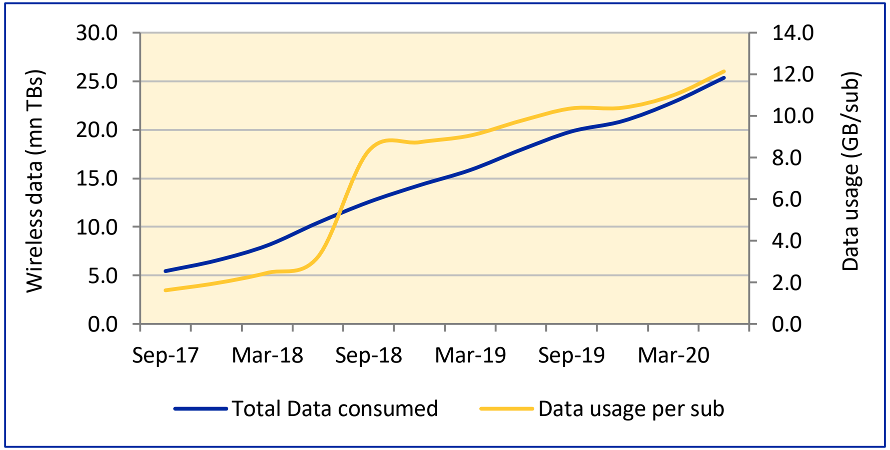
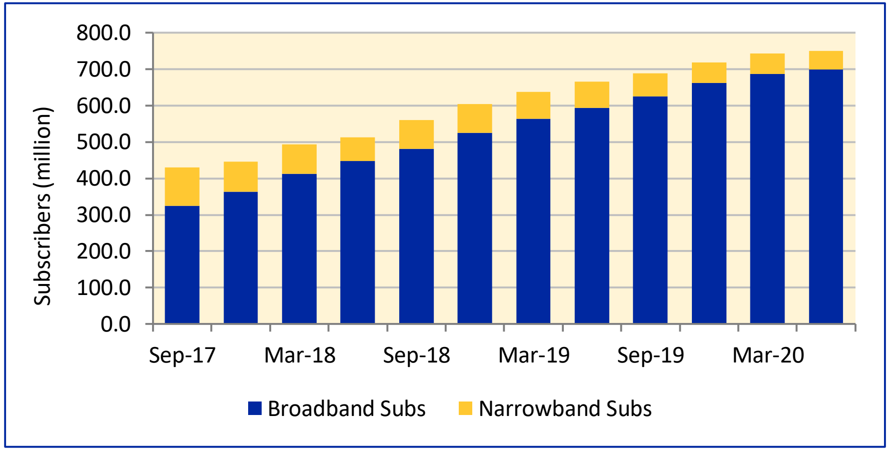


Exhibit: Data subscribers growth



Source: *ICRA research*

- There has been a surge in data usage with the steep fall in data prices and introduction of 1GB/day plans, providing higher usage allowance
- The data subscribers have also been increasing at a rapid pace, primarily the broadband subscribers. This has been on account of the proliferation of affordable handsets amid low data prices

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Drivers of Growth in FY2022

Increased usage and tariff hikes to drive growth

Upgradation of Subscribers from 2G to 4G

With increased proliferation of smartphones as well as data requirements, subscribers are upgrading from 2G to 4G, resulting in expansion in ARPU levels and this trend is likely to continue

Increased usage

There has been an increase in the usage of telecom services, which has been accelerated by work from home and increased content watching. The higher usage is likely to persist

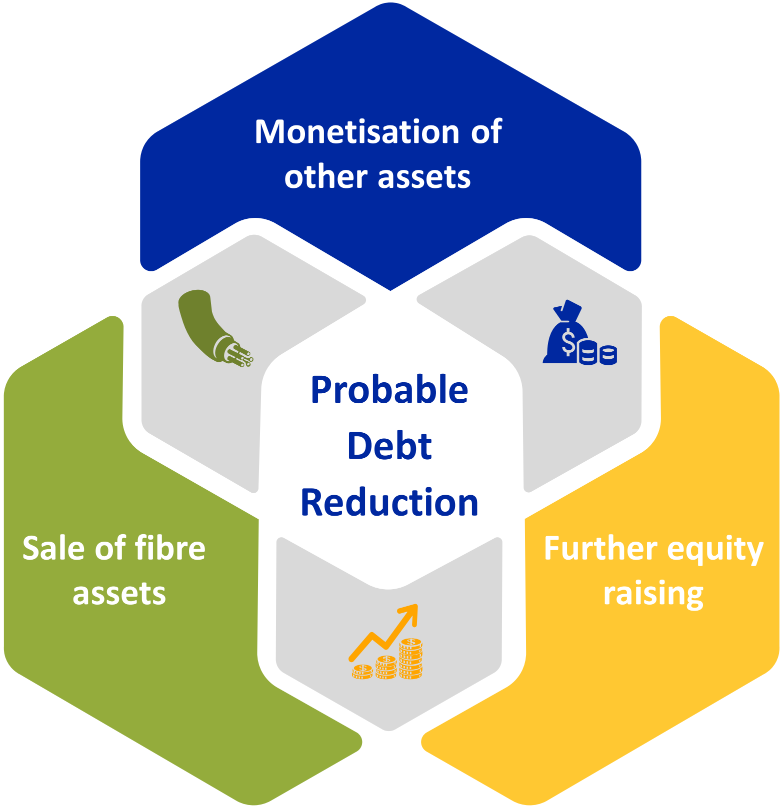
Tariff hikes

After a steep tariff hike in December 2019, the telcos are gearing up for another round of tariff hikes, which will drive the ARPU growth going forward

Inorganic deleveraging can also help in debt reduction

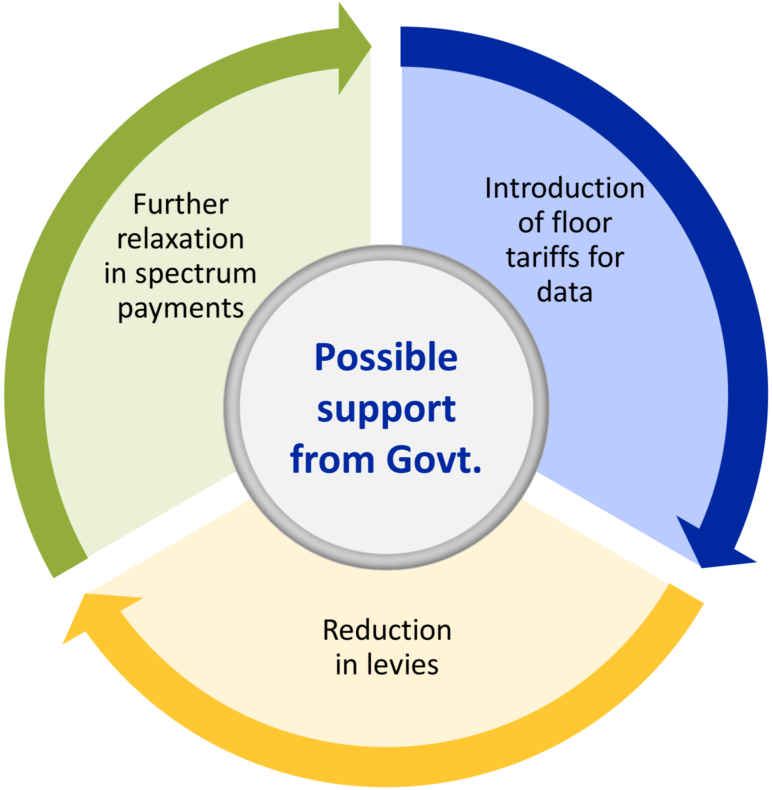
Sizeable deleveraging led by rights issues, QIP issuance, and additional sponsor fund infusions in FY2020

This led to reduction in debt levels to Rs. 4.4 lakh crore as on March 31, 2020 from Rs. 5 lakh crore as on March 31, 2019



Government support likely to aid sector

In November 2019, the Government offered a financial succour in terms of deferment of spectrum auction instalments for FY2021 and FY2022



Growth opportunities from new segments

Enterprise Business

Data Centres and Cloud Services

Digital Services (Music, content, payments, etc.)

Fixed Broadband

Telcos are making efforts to transition from plain vanilla voice and data service providers to add more services to their bouquet, which can act as growth drivers in the long term

Rating Action

Rating actions in the recent past in telecom sector

Exhibit: Rating distribution of ICRA rated universe of 17 companies

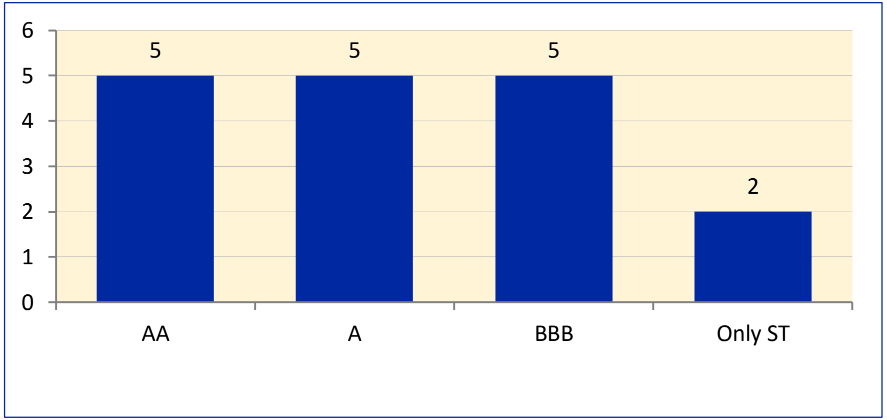
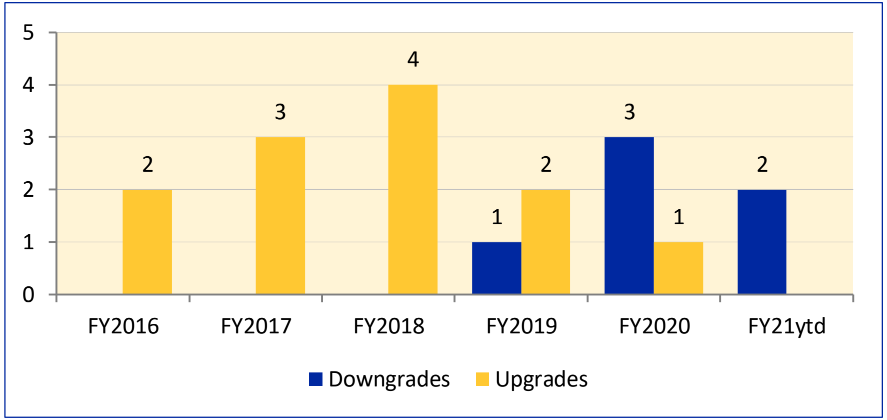


Exhibit: Count of upgrades and downgrades (ICRA rated universe)



Source: *ICRA research*

- The downward rating actions in FY2021 ytd were on two entities in the telecom equipment space – Exicom Tele Systems Limited and Tejas Networks Limited which faced revenue contraction in FY2020, which continued in the current fiscal owing to the impact of the Covid-19 pandemic. This also resulted in pressure on the profitability.
- Exicom downgraded from [ICRA]BBB+ (Negative)/A2 to [ICRA]BBB- (Negative)/A3, while Tejas Networks Limited downgraded from [ICRA]A (Stable)/A1 to [ICRA]A- (Stable)/A2+

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THANK YOU!