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INDIAN TELECOM INDUSTRY

Sector outlook revised to Stable as telcos complement the relief package with a tariff hike; industry EBITDA to grow by around 30% in FY2023

Highlights



Telcos complemented the relief package announced by the GoI by implementing tariff hikes recently.

These hikes are estimated to result in improvement in operating profits by around 28-30% in FY2023 over FY2022 levels, which is likely to result in healthy improvement in the credit profile of the telecom service providers. With these tailwinds, ICRA has revised the sector outlook to Stable from Negative















- The operating metrics of the industry have been steadily improving led by increasing data usage and steady conversion of subscribers to 4G from 2G, leading to improvement in ARPU levels which translated in consistently healthy growth in industry AGR.
- Debt continues to remain the industry's Achilles' Heel. With the addition in spectrum deferred liabilities for March 2021 auctions, debt levels are likely to remain elevated to ~Rs. Rs. 4.7 lakh crore as of March 2022, before moderating to ~Rs.4.3 lakh crore by March 2024.
- While there remain avenues of debt reduction, including sale of assets, Bharti Airtel has done a rights issue of Rs. 21,000 crore of which it has collected 25% of the amount upfront, while Vodafone Idea is also planning a fund infusion.
- The relief package eased balance sheet side pressures, by way of moratorium on the deferred spectrum and AGR payments, and telcos complemented this by implementing tariff hikes in the pre-paid segment, which will result in improvement in revenue and profit generation.
- The four-year moratorium on these dues provide an annual cash flow relief of ~Rs. 40,000 crore for the industry over FY2023 till FY2025 period and provides sufficient time to undertake fundamental repairs
- The latest round of tariff hikes, wherein the telcos increased the tariffs by 20% across prepaid plans is likely to result in a growth of around 20% in revenues in FY2023 and given high operating leverage, the EBITDA is likely to grow by around 28-30% for the industry
- The debt coverage indicators are also expected to witness an improvement as reflected by debt/EBITDA of 3.5x for FY2022, which will further improve to 2.8x for FY2023, while interest coverage is likely to improve to 3.4x for FY2022 and further to 4.2x for FY2023.

Agenda



















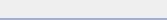
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