

INDIAN TELECOM INDUSTRY

Telecom industry in a transition phase
for technology upgrade to 5G; tariff
hikes to drive improvement in
revenues and profitability

March 2022



The operating and financial metrics of the industry are on a consistently improving trajectory. The telcos implemented the tariff hikes, which are likely to improve the operating profits by around 27-30% in FY2023, which in turn will result in a healthy improvement in their credit profiles. Further, the industry is in a transition phase towards technology upgrade to 5G, which would require investment in spectrum as well as densification of fibre and passive network and spectrum auction is likely in 2022.



- The operating metrics of the industry have been steadily improving, led by increasing data usage and steady conversion of subscribers to 4G from 2G. This has improved the ARPU levels, which translated into a consistently healthy growth in industry AGR.



- The industry continues to be saddled with elevated debt levels. The debt levels are likely to remain elevated at ~Rs. 4.7 lakh crore as of March 2022, and are likely to increase further to Rs. 4.8 lakh crore by March 2023 with the expected 5G auctions.



- 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 of around Rs. 14,500 crore.



- In the latest Union budget, the government announced 5G auctions to be done in 2022, followed by rollouts in 2023. The impetus remains on rural broadband penetration. The government also budgeted Rs. 44,720-crore equity infusion in BSNL for network upgradation, 4G spectrum, etc.



- The operators also prepaid some of the deferred spectrum dues, which increased the non-tax receipts of the GoI from the telecom sector to around Rs. 72,000 crore for FY2022, despite the year being under moratorium for spectrum and AGR dues.



- The latest round of tariff hikes, wherein the telcos increased the tariffs by 20% across prepaid plans, are likely to result in a growth of around 20% in revenues in FY2023 and given the high operating leverage, the EBITDA is likely to grow by around 27-30% for the industry.



- The debt coverage indicators are also expected to improve, reflected in debt/EBITDA of 3.6x for FY2023, which will further improve to 3.0x for FY2024, while the interest coverage is likely to improve to 3.4x for FY2023 and further to 3.9x for FY2024.

1 Industry Outlook - Stable



2 Recovery in Telecom Sector Continues



3 Tariff Hikes to Drive Industry's Cash Flows



4 Union Budget 2022 – Key Takeaways



5 Industry Consolidated Financials and Peer Comparison



6 ICRA Ratings in Telecom Sector





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