



INDIAN TELECOM INDUSTRY

**Tariff hikes and muted spectrum
auction participation augur well for
improvement in return and debt
metrics for the industry**

JULY 2024





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The recently-concluded spectrum auctions saw muted participation and fetched Rs. 11,341 crore to the exchequer, primarily driven by the renewal of expiries.

This was followed by the industry undertaking the third tariff hike, which could result in OPBDITA accretion of Rs. 20,000 crore once the hikes are fully absorbed. ICRA estimates operating income to expand by 12-14% to Rs. 3.2-3.3 lakh crore for FY2025. The debt levels remain elevated and are likely to moderate as capex intensity subsides.



- **Latest spectrum auctions saw muted participation**, which was in line with ICRA's expectations, and was primarily driven by renewals of the expiring spectrum, along with filling of some gaps to strengthen the network. The telcos bought spectrum worth Rs. 11,341 crore. This muted participation is not likely to materially impact the balance sheet of the industry.



- **Latest tariff hikes to translate to healthy growth in operating metrics of the industry.** ARPU growth slowed down in FY2024, owing to the absence of tariff hikes and 5G-specific tariff plans by the telcos. However, the growth is likely to pick up with the latest round of tariff hikes, leading to an expected ARPU of Rs. 200 for FY2025.



- **ICRA expects the industry to report a 12-14% expansion in operating income for FY2025**, largely backed by tariff hikes. ICRA projects the sector's consolidated revenues at Rs. 3.2-3.3 lakh crore with an OPBDITA of Rs. 1.6-1.7 lakh crore for FY2025. Once this hike is fully absorbed, ICRA expects OPBDITA accretion of Rs. 20,000 crore for the industry.



- **Large part of 5G capex upfronted in FY2024.** The absence of retail-based use cases, expensive customer equipment and low fiberisation levels are challenges for 5G expansion. The industry has upfronted a significant capex for 5G in FY2024. This capex intensity is likely to have peaked and is expected to subsequently moderate from FY2025.



- **Muted auction participation and tariff hikes to lead to improvement in sectoral debt metrics.** As per ICRA, the industry's total debt is likely to witness marginal moderation to Rs. 6.2-6.3 lakh crore as on March 31, 2025. The industry's debt/OPBDITA is likely to improve to 3.7-3.9x and interest coverage to 3.1-3.3x for FY2025.

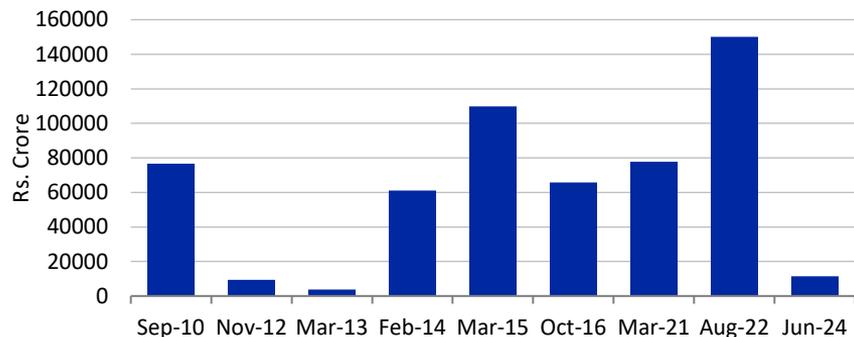


Muted Participation in Spectrum Auctions

Latest spectrum auctions were largely driven by expiries and participation was muted

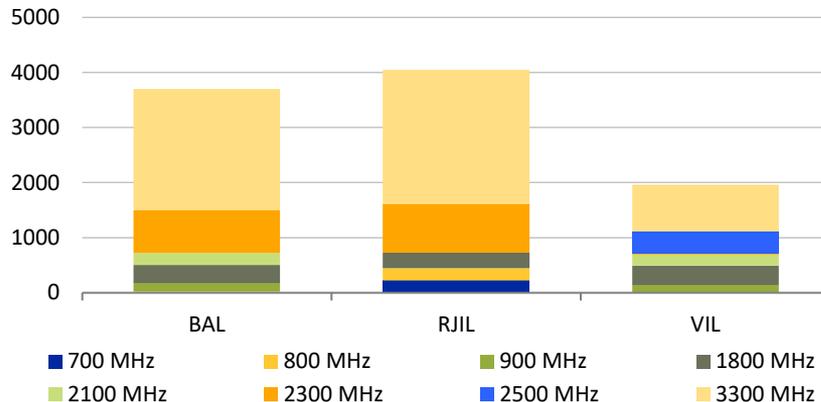
Spectrum Auction History – 2024 Auctions Saw Third Lowest Participation

EXHIBIT: Spectrum auction history



Source: DoT, ICRA Research

EXHIBIT: Spectrum holding for telcos (MHz) prior to June 2024 auctions



Source: ICRA Research; BAL – Bharti Airtel Limited, VIL – Vodafone Idea Limited, and RJIL – Reliance Jio Infocomm Limited

- India has witnessed eight rounds of auctions before June 2024, wherein telcos have spent more than Rs. 5.5 lakh crore and acquired spectrum across various bands.
- In terms of spectrum-holding, BAL and VIL hold spectrum for 900 MHz, 1800 MHz, 2100 MHz, 2300-2500 MHz, 3000 MHz and 26 GHz bands, while the holding for RJIL is primarily in the 700 MHz, 800 MHz, 1800 MHz, 2300 MHz, 3300 MHz and 26 GHz bands.

Spectrum Auctions – June 2024 – Telcos Renewed Expiring Spectrum

Muted participation by telcos

Spectrum worth Rs. 11,341 crore sold

Value-wise sales stood at 12% of total value of spectrum on offer

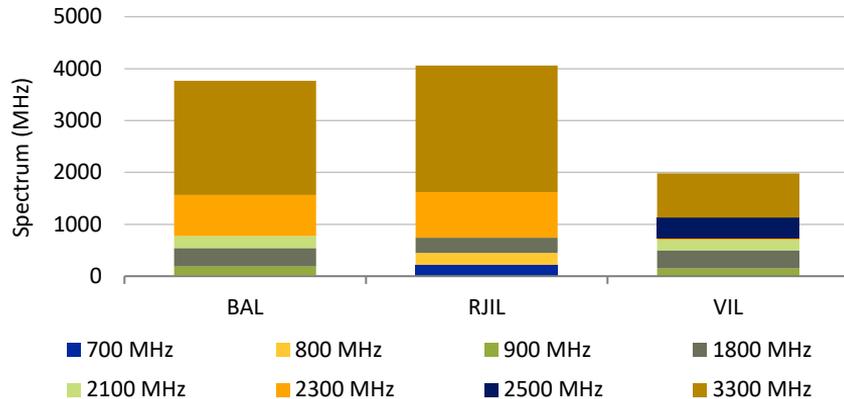
Quantum-wise sales were only 1% of total spectrum on offer

	600 MHz	700 MHz	800 MHz	900 MHz	1800 MHz	2100 MHz	2300 MHz	2500 MHz	3300 MHz	26 GHz
Spectrum on offer (MHz)	Nil	Nil	118.75	117.2	221.4	125	60	70	1,110	8,700
Spectrum sold (MHz)	Nil	Nil	0.0	60.8	50.6	20.0	0.0	10.0	0.0	0.0
Value at reserve price (Rs. crore)	NA	NA	21,341	15,619.6	21,752.4	11,810	4,430	2,300	16,251.2	2,734
Sales value (Rs. crore)	Nil	Nil	0	7,067	3,579	545	0	150	0	0



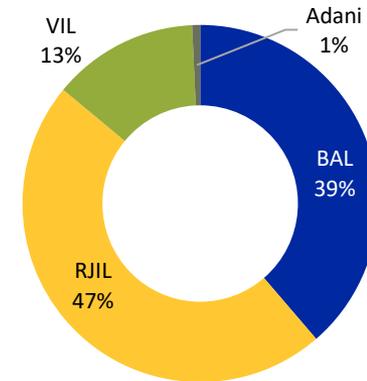
Spectrum Holding – RJIL Leads with Largest Share of Spectrum

EXHIBIT: Band-wise spectrum holding for telcos (excl. 26 GHz band)



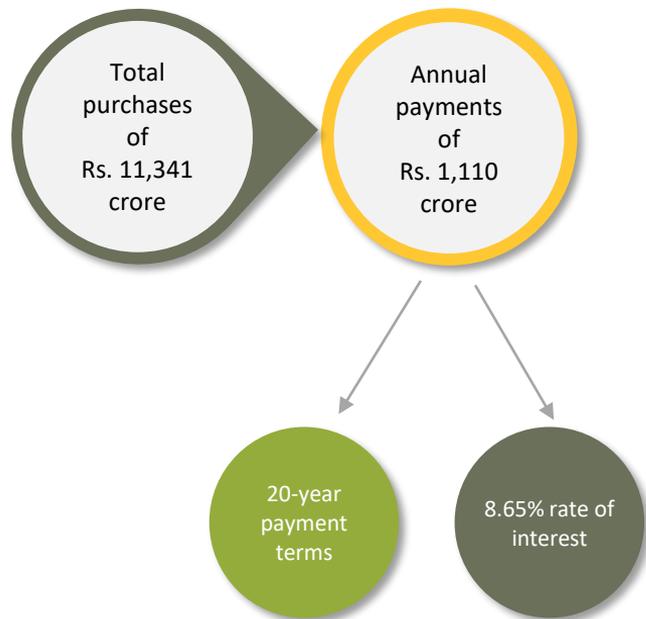
Source: DOT, ICRA Research

EXHIBIT: Spectrum market share



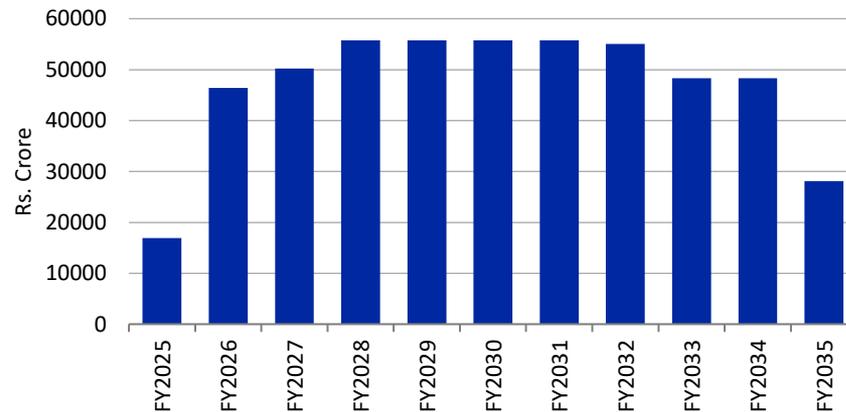
Source: ICRA Research

- This spectrum auction was largely driven by renewals of the expiring spectrum in the 900 MHz and 1800 MHz bands.
- The 5G specific bands of 3300 MHz and 26GHz did not see any participation.
- BAL acquired spectrum in 8 circles in the 900 MHz band (42 MHz), 9 circles in the 1800 MHz band (35 MHz) and 4 circles in the 2100 MHz band (20 MHz).
- VIL acquired spectrum in 9 circles in the 900 MHz band (18.8 MHz), and 1 circle each in the 1800 MHz (1.2 MHz) and 2500 MHz (10 MHz) bands.
- RJIL acquired spectrum in 2 circles in the 1800 MHz (14.4 MHz) bands.



Source: ICRA Research

EXHIBIT: Expected outflow towards deferred liabilities



Source: ICRA Research

- The annual outflow for the industry towards deferred spectrum payments will increase to around Rs. 47,000 crore for FY2026, followed by more than Rs. 50,000 crore thereafter as the moratorium ends.
- Since this auction saw muted participation, assuming a 20-year payment plan, cash flows and overall debt levels are not expected to be materially impacted.



Tariff Hikes to Pave Way for ARPU Growth

Tariff hikes to result in expansion in ARPU levels and, thus operating margins

Long-awaited Tariff Hikes Implemented by Telcos

Plan	Days	Reliance Jio Infocomm Limited				Bharti Airtel Limited				Vodafone Idea Limited			
		Existing	New	% increase	New ARPU	Existing	New	% increase	New ARPU	Existing	New	% increase	New ARPU
1 GB/day	28	209	249	19%	267	265	299	13%	320	269	299	11%	320
1.5 GB/day		239	299	25%	320	299	349	17%	374	299	349	17%	374
2/2.5 GB/day		299	349	17%	374	359	409	14%	438	319	379	19%	406
1.5 GB/day	56	479	579	21%	310	479	579	21%	310	479	579	21%	310
2 GB/day		533	629	18%	337	549	649	18%	348	539	649	20%	348
1.5 GB/day	84	666	799	20%	285	719	859	19%	307	719	859	19%	307
2 GB/day		719	859	19%	307	839	979	17%	350	839	979	17%	350
2/2.5 GB/day	365	2999	3599	20%	296	2999	3599	20%	296	2899	3499	21%	288

Tariffs hiked by around 15-20% across prepaid plans by all telcos

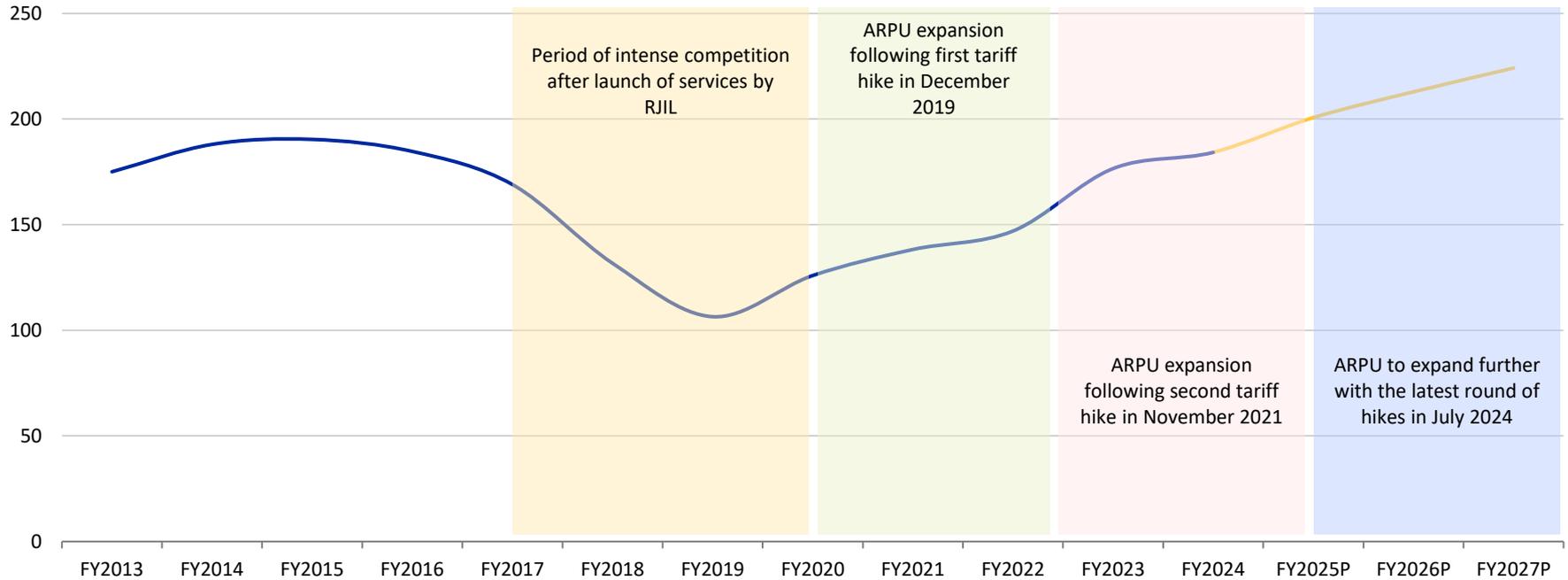
Hikes pave way for expansion in margins and ROCE for industry

This is the third round of tariff hikes, after December 2019 and November 2021

Even after these hikes, RJIL continues to offer lower priced plans in some categories than the incumbents

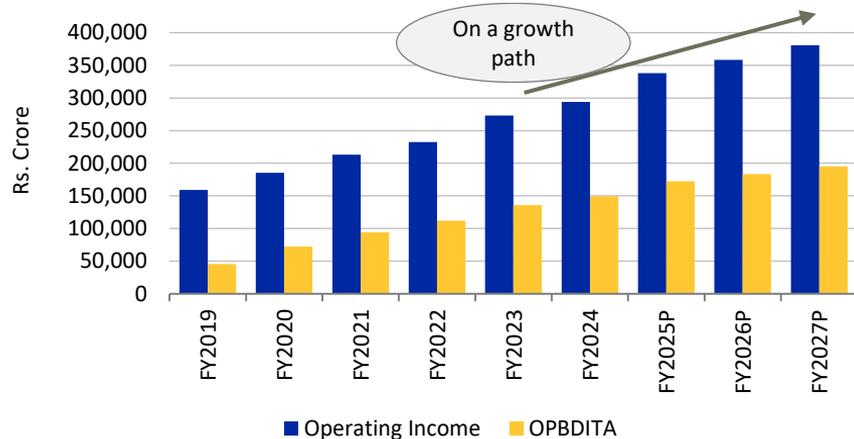
Tariff Hikes to Lead to ARPU Expansion for the Industry

EXHIBIT: ARPU Movement for the Industry



Source: ICRA Research

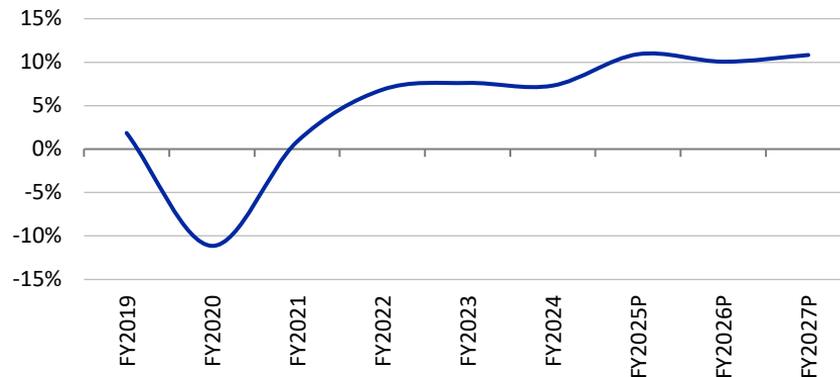
EXHIBIT: Movement in operating income & operating profits for sector



Source: ICRA Research

- The telecom sector's revenues and profits have been on a growth trajectory, marked by two rounds of tariff hikes in December 2019 and November 2021 and upgradation of data subscribers to 4G. The growth momentum is likely to continue with the latest round of tariff hikes. ICRA expects OPBDITA accretion of Rs. 20,000 crore for the industry, once the tariff hikes are completely absorbed.

EXHIBIT: Movement in industry ROCE



Source: ICRA Research

- The industry was marred by low RoCE levels, with consistently elevated debt and pressure on profit generation. However, with improvement in profit generation, the same have started to improve. ROCE is further expected to improve with the latest tariff hikes, however, remaining at around 10% levels. The industry will need to monetise the 5G investments to demonstrate ROCE improvement.



ARPU EXPANSION

ARPUs are expected to increase to Rs. 200 for FY2025, followed by further improvement thereafter



REVENUE GROWTH

Industry revenues are projected to increase by 12-14% in FY2025, reaching Rs. 3.2-3.3 lakh crore



PROFITABILITY IMPROVEMENT

Industry OPBDITA likely to grow by 14-16% in FY2025 to cross Rs. 1.6 lakh crore. RoCE to improve to more than 10% for FY2025; Rs. 20,000 crore OPBDITA boost once the hikes are fully absorbed



DEBT METRICS IMPROVEMENT

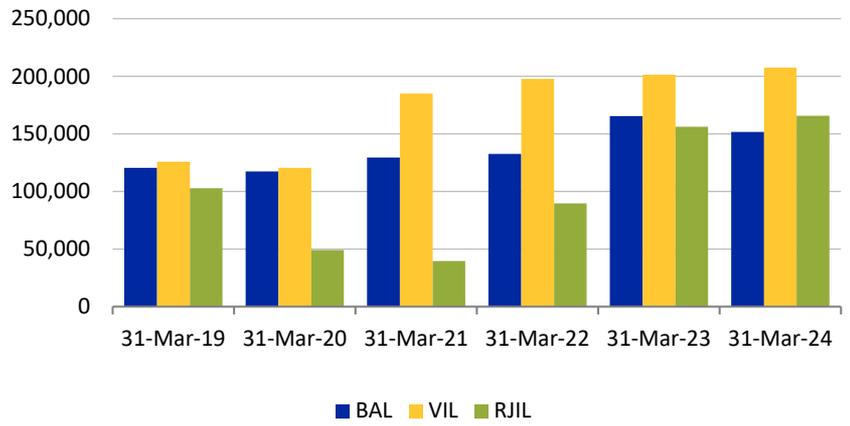
With expansion in profitability, industry debt/OPBDITA to improve to 3.7-3.9x and interest cover to 3.1-3.3x for FY2025



Debt Remains Elevated

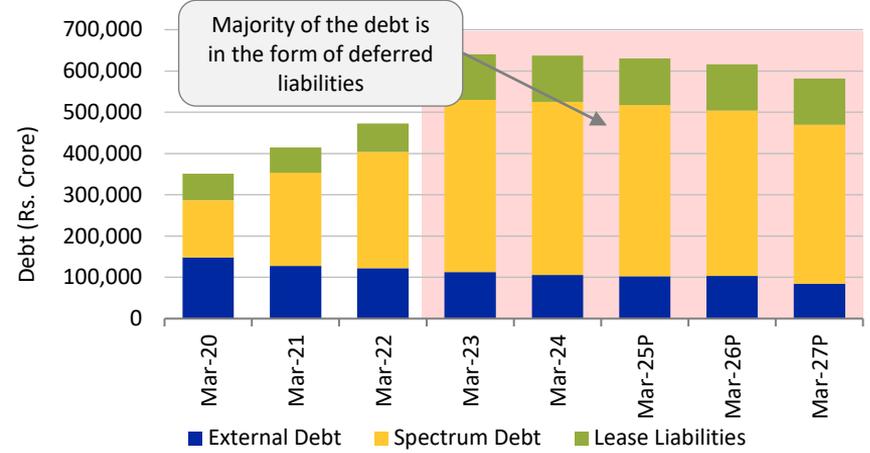
Debt Levels Remain Elevated

EXHIBIT: Movement in telco-wise debt (Rs. crore) (excl. leases)



Source: Annual Report of telcos, ICRA Research

EXHIBIT: Movement in consolidated debt (Rs. crore)

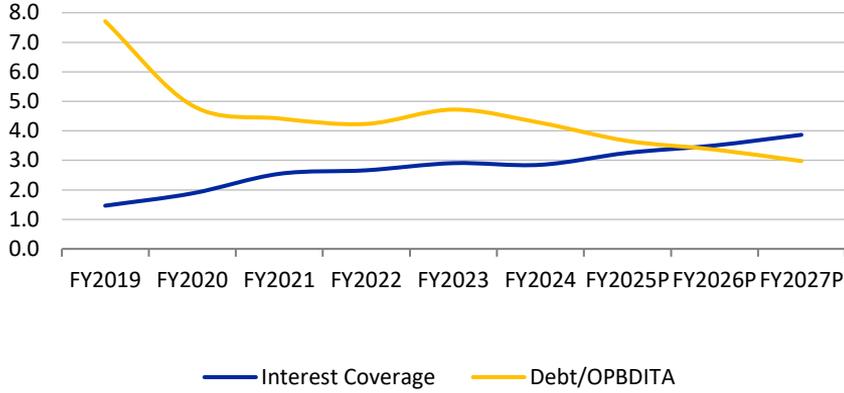


Source: ICRA Research; Consolidated for BAL, VIL and RJIL

- The sector’s debt levels remain elevated, having risen steadily over the past few years. This increase is partly attributable to the addition of deferred debt obligations. These obligations stem from Adjusted Gross Revenue (AGR) liabilities and, more recently, spectrum auctions of FY2022 and FY2023.
- While external debt witnessed a steady decline, the overall debt levels have remained unyielding at Rs. 6.4 lakh crore in FY2024. However, assuming limited spectrum participation, ICRA forecasts debt levels to marginally moderate, going forward.

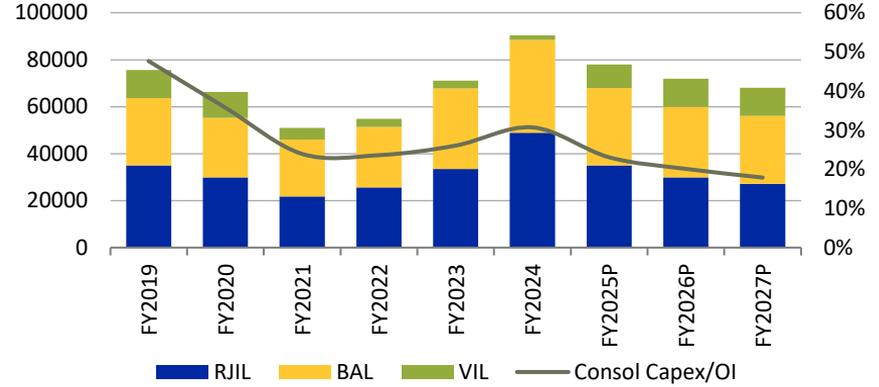
Debt Metrics to Improve Steadily, Going Forward

EXHIBIT: Movement of industry credit metrics



Source: ICRA Research

EXHIBIT: Network capex intensity to moderate after FY2025



Source: ICRA Research

- With enhanced operating metrics, following the ARPU expansion, ICRA expects the industry's operating profits and debt coverage ratios to improve, even as debt levels remain staggeringly high.
- Although the deferred debt resulted in some moderation in metrics in FY2023, ICRA anticipates some improvement in the coming years. ICRA forecasts the debt/OPBDITA to improve to 3.7-3.9x and interest coverage to 3.1-3.3x for FY2025, with further enhancement, going forward. This is driven by estimated expansion in the operating profits with tariff hikes likely this year.
- Moreover, the capex intensity (as measured by capex/OI) for the three telcos on a consolidated level peaked in FY2024 as they upfronted their 5G capex. ICRA foresees the same to taper down to some extent after FY2025 (capex excluding spectrum purchases).



Industry Outlook – Telecom Services – Stable

Expectations of steady ARPU improvement and profit generation to keep outlook on telecom services Stable



Average Revenue per User (ARPU)

The industry ARPU (for ICRA's sample set) is expected to improve to Rs. 200 for FY2025 from Rs. 184 for FY2024. The ARPU growth rates moderated in FY2024 owing to absence of tariff hikes. However, growth in FY2025 incorporates the impact of the recently implemented tariff hikes.



Revenue and Profitability

Revenues are likely to grow by 12-14% in FY2025, with OPBDITA growing by 14-16%, given the operating leverage. The recently implemented tariff hikes can result in OPBDITA accretion of Rs. 20,000 crore for the industry, once the full impact of the same is absorbed.



Debt Levels

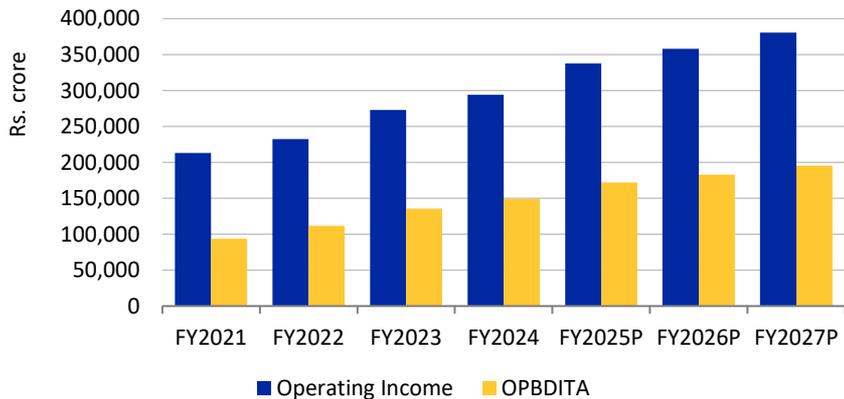
The industry continues to grapple with an elevated debt level, especially due to the addition of deferred debt from various spectrum auctions. Industry debt level remained elevated at Rs. 6.4 lakh crore as on March 31, 2024. Some moderation is expected thereafter, with debt projected to stand at Rs. 6.2-6.3 lakh crore as on March 31, 2025, with some improvement in debt metrics.



Capex

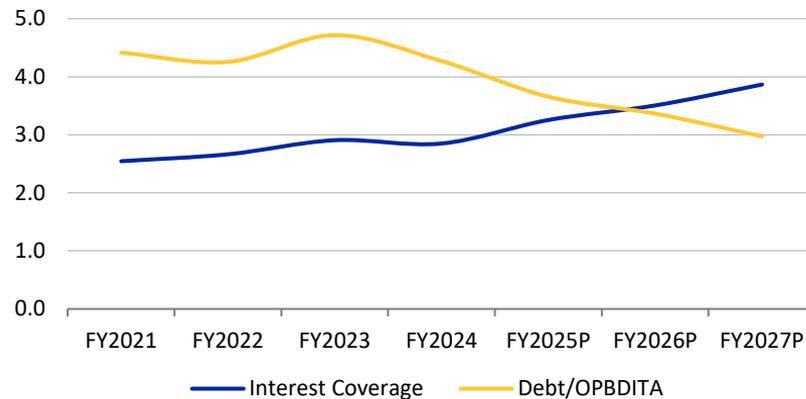
Excluding the spectrum acquisition, the industry's capex is anticipated to be Rs. 70,000-75,000 crore per annum for network upgrades and expansion. The capex intensity peaked in 2024 as 5G capex was upfronted; however, the same is likely to taper down to some extent from FY2025.

EXHIBIT: Trend in industry revenues and operating profitability



Source: Annual report of telcos, ICRA Research

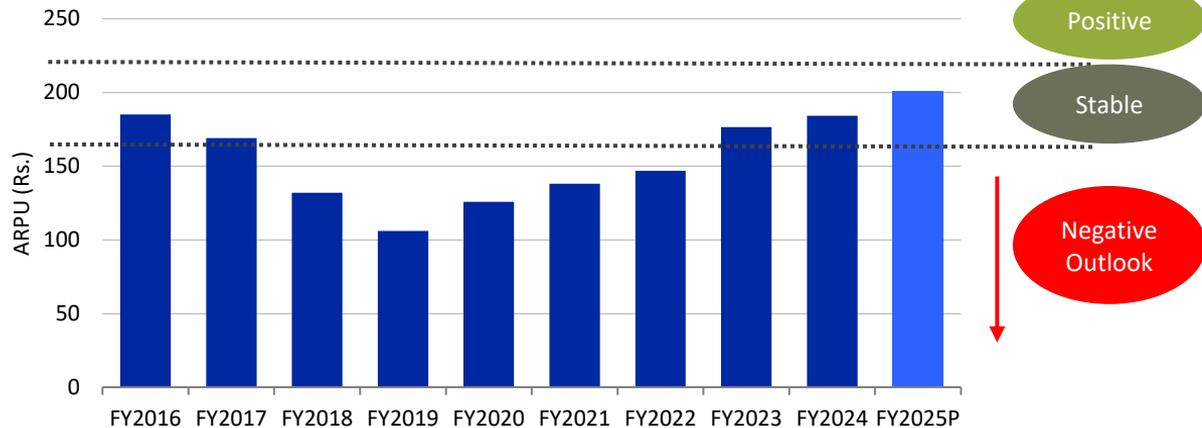
EXHIBIT: Trend in industry coverage ratios



Source: Annual report of telcos, ICRA Research

- The last round of tariff hikes in FY2022 boosted the ARPU level. However, with subscriber upgrades from 2G to 4G nearing saturation, ARPU growth had slowed in FY2024, translating to slower revenue and profit growth. ICRA expects revenues to grow by 12-14% in FY2025, reaching Rs. 3.2-3.3 lakh crore with OPBDITA of Rs. 1.6-1.7 lakh crore.
- Participation in the last 5G spectrum auctions (Aug 2022) had led to an increase in debt levels, which were elevated at around Rs. 6.4 lakh crore as on March 31, 2024. The participation in the latest spectrum auctions was muted at around Rs. 11,300 crore and was largely in line with ICRA's expectations, resulting in moderation of debt levels to some extent, which are estimated at Rs. 6.2-6.3 lakh crore as on March 31, 2025.

EXHIBIT: Trend in ARPUs for top three private telcos



Source: ICRA Research; aggregated for ICRA's sample of 3 companies –BAL, VIL, and RJIL

Quantitative Thresholds

Positive Outlook

ARPU > Rs. 220

Stable Outlook

Rs. 160 < ARPU < Rs. 220

Negative Outlook

ARPU < Rs. 160

- ARPU levels for the industry are within the benchmark thresholds for ICRA's Stable outlook. The ARPU for FY2024 has been around Rs. 184 and the expectations for FY2025 are Rs. 200, with projection of steady improvement thereafter. Hence, the outlook for the telecom services industry continues to be Stable.
- ICRA is likely to revise the industry's outlook to Negative if the ARPU level slips below Rs. 160.
- Further, the outlook can be revised to Positive if the ARPU level is sustained above Rs. 220, leading to healthy ROCE level.

AA+
AA
AA-
A+
A
A-
BBB+
BBB
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BB+
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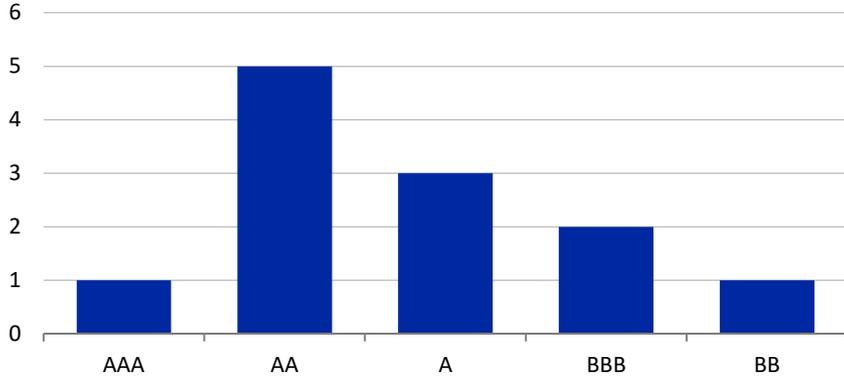


B+
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CREDIT RATINGS

ICRA Ratings for Telecom Sector

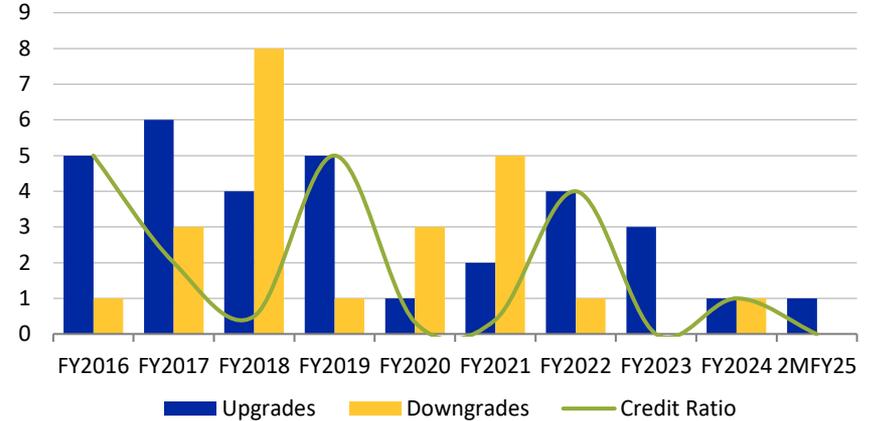
EXHIBIT: Rating distribution across ICRA-rated telecom sector



Source: ICRA Research

- All the entities rated by ICRA in the sector are in the investment-grade category, except one.

EXHIBIT: Upgrades and downgrades in ICRA-rated telecom sector



Source: ICRA Research

- There was one upgrade and one downgrade in the previous fiscal. While ITI Limited was downgraded to D due to liquidity issues from delayed receivables, Railtel was upgraded due to a consistent healthy credit profile and its expected continuation of the same. In 2M FY2025, ITI Limited was upgraded to BB- after curing of delays.

Summary of ICRA's Key Ratings and Recent Rating Actions

EXHIBIT: Key rating actions in FY2024 and YTD FY2025

Company Name	Previous Rating	Rating Action	Date	Remarks
Railtel Corporation of India Ltd.	AA- (Positive)/ A1+	AA (Stable)/ A1+	Mar 2024	<i>Demonstrated healthy growth in the revenue and sustenance of its strong financial risk profile, supported by zero debt and a healthy liquidity position.</i>
ATC Telecom Infrastructure Private Limited	AA- (Stable)	AA- (Rating watch positive)	Jan-24	<i>Data Infrastructure has announced the acquisition of ATC, which is likely to be a credit positive for ATC in terms of favourable change in parentage</i>
Indus Towers Limited	AA+ (Stable)/ A1+	AA+ (Stable)/ A1+	May-24	<i>Leadership position in the telecom tower industry, pan-India presence, exceptional financial flexibility, strong liquidity and robust operational metrics.</i>
Sterlite Technologies Limited	AA (Negative)/ A1+	AA (Negative)/ A1+	Apr-24	<i>The Negative outlook continues owing to expected pressure on profitability even as the company has raised funds which has resulted in moderation in debt levels.</i>
Tejas Networks Limited	A+ (Stable)/A1+	A+ (Stable)/A1+	Apr 2023	<i>Financial flexibility owing to strong parentage, healthy order book position, robust track record in the industry and long-term relationship with some large clients, in addition to strong liquidity profile.</i>
Hughes Communications India Pvt Ltd	A- (Stable)/A1	A- (Stable)/A1	Apr 2024	<i>Hughes's market leadership in the very small aperture terminal (VSAT) market, coupled with its healthy order book position, and zero-debt position as on date (excluding lease liability as per Ind AS and indemnified AGR liability by the parent).</i>
HCIL Comtel Private Limited	A- (Stable)/A1	A- (Stable)/A1	Apr 2024	

EXHIBIT: Key ratings

Company Name	Rating	Date
Summit Digital Infrastructure Private limited	AAA (Stable)	Apr-24
Indus Towers Limited (formerly Bharti Infratel Limited)	AA+ (Stable)/A1+	May-24
Sterlite Technologies Limited	AA (Negative)/A1+	Apr-24
Railtel Corporation of India Ltd	AA (Stable)/A1+	Mar-24
ATC Telecom Infrastructure Pvt Ltd	AA- (Rating Watch Positive)	Jan-24
Tejas Networks Limited	A+ (Stable)/A1+	Apr-23
Crest Digital Private Limited	AA+ (Stable)	Aug-23
Svarn Infratel Private Limited	BBB (Stable)/A3+	Nov-23
Hughes Communications India Private Limited	A- (Stable)/A1	Apr-24
HCIL Comtel Private Limited	A- (Stable)/A1	Apr-24



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