

**GOVERNMENT OF INDIA
MINISTRY OF COMMUNICATIONS
DEPARTMENT OF TELECOMMUNICATIONS**

**LOK SABHA
UNSTARRED QUESTION NO. 708
TO BE ANSWERED ON 7TH FEBRUARY, 2018
FINANCIAL STRESS IN TELECOM SECTOR**

708. SHRI INNOCENT:

Will the Minister of COMMUNICATIONS be pleased to state:

- (a) whether the Government has received any communication from the State Bank of India about the unusual unsustainable levels of debt of telecom companies;
- (b) if so, the details thereof and the action taken by the Government thereon;
- (c) whether the telecom industry has sought deferred payment for the purchase of spectrum with a moratorium of five years instead of current payback plan of ten years after a two year moratorium; and
- (d) if so, the details thereof and the reaction of Government thereto?

ANSWER

**THE MINISTER OF STATE (IC) OF THE MINISTRY OF COMMUNICATIONS &
MINISTER OF STATE IN THE MINISTRY OF RAILWAYS
(SHRI MANOJ SINHA)**

(a) & (b) Government of India, Department of Telecom received a letter from Chairman, State Bank of India on 22nd May, 2017. The letter was duly considered by the IMG (formed on 16.05.2017) in its examination of systemic issues affecting viability & repayment capacity in Telecom Sector. The copy of the letter is attached as Annexure-A.

(c) Department of Telecom received a letter from Director General, Cellular Operators Association of India (COAI) on 29th June, 2017. This letter contained many issues including requests for increase in payment schedule for deferred spectrum payment liability to 20 years (5-year moratorium plus 15-year payment period). Further, during the submissions to Inter Ministerial Group (IMG), few TSP's, including Airtel and Vodafone, had sought the same.

(d) An Inter-Ministerial Group (IMG) was constituted on 16/05/2017 with following terms of reference:

- To examine systemic issues affecting viability and repayment capacity in telecom sector and furnish recommendations for resolution of stressed assets,
- Policy reforms and strategic interventions for Telecom sector.

The IMG submitted its report on 31/08/2017. The IMG inter-alia recommended that regarding the tenure of deferred Payment Liability on Spectrum, the Telecom Service Providers may be given a one- time opportunity to opt for higher number of installments (16) instead of the currently permitted 10 installments. The IMG did not recommend any change in the moratorium period of two years. The recommendation has been approved by Telecom Commission and is under process for approval by Cabinet.

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State Bank Of India

ARUNDHATI BHATTACHARYA

Chairman

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22nd May 2017

Dear Ms. Sundararajan,

We understand that Govt of India has formed an inter-ministerial panel to suggest policy reforms for the telecom sector, which is reeling under severe financial stress. As Lenders, we are highly exposed to Telecom Sector with total lending of more than Rs 4 lakh crore. We would therefore like to represent some of our observations and recommendations to help this sector tide over this current crisis.

Indian telecom market is one of the fastest and largest telecom markets in the world. This industry has seen a high growth phase of 15 years till year 2016. Telecom sector contributed 6.5% to GDP during FY16. The sector went through its first crisis in the wake of sweeping cancellation of licenses by the courts. However since then the sector has forged ahead and increased mobile penetration in the country hugely. Given this scenario, Banks also lent large amounts to the sector for expansion as well as purchase of spectrum through auctions. The number of players in the sector was more than 11/12 which was unsustainable and it was necessary for some of them to get consolidated with the larger players. This has been happening at a fast pace in the last couple of years. Some of the transactions have led to foreign players exiting the market altogether (eg. Telenor, DoCoMo), or becoming a minority shareholder by merging their business in existing players (eg. MTS, Vodafone and IDEA also merging to form 50:50 JV). It is a question as to how this reflects on the future prospects of the sector going ahead.

The stress in the sector has reached highly unsustainable levels after the entry of new players and launch of free services which led to erosion of topline and EBITDA of the telecom service providers. The data with us suggests that the total EBITDA of the sector on annualized basis is Rs 65,000 crore which is clearly unsustainable for debt of more than Rs 4 lakh crore.

We request for immediate intervention to stem the slide. Detailed recommendations are given in the presentation attached. Some of the key recommendations are given below;

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- Deferred payment liability (DPL) for spectrum needs to be aligned to the life of the spectrum i.e. 20 years with a moratorium of 5 years and repayment of 15 years as against the current policy 2 years plus 10 years
- Rationalization of regulatory charges given there is heavy burden of industry specific levy for telecom sector, (proposed 18% GST, 8% License Fees, 2-6% Spectrum Usage Charges).
 - 5% of License Fee taken for USO should be dispensed with, given the penetration and coverage being pan-India. Also, currently accumulated USO Fund has already reached more than Rs 45,000 crore.
 - Also, GST rates should be reduced to lowest bracket of 5% given the criticality of the sector to Indian Economy and cellular service becoming a necessity today.
- Resolution of definition of Adjusted Gross Revenues. All litigations with regards to same should be resolved through negotiations and one-time settlements thereby reducing the cost burden and freeing of NFB limits for other purpose.
- Inclusion of private players for utilization of USO Fund accumulated for increasing the mobile penetration in remote areas. Eg. Private players could be able to put a tower in remote location at competitive rate and hence such work should be based on L1 tender basis.
- M&A regulations to be eased to ensure quick mergers with minimum time required for approvals as well as minimum overhead costs for the same
- Income from Spectrum Trading not to be counted for the purpose of calculation of AGR given that any premium received is taxable as capital gains. This will also lead to efficient use of spectrum.

Given the importance of the sector to the economy and government's push towards a digital economy, there is a need for large scale intervention and policy impetus for the sector to revive.

We look forward to engaging extensively with you for early resolution of the above issues.

With Warm Regards

Yours sincerely,

(Arundhati Bhattacharya)

Ms Aruna Sundararajan
Chairman (Telecom Commission) & Secy. (DoT)
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Ministry of Communications
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