

Press Release

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Tariff hikes can double EBITDA of telcos

Sustainability of hikes and funding of AGR-related dues key monitorables

The steep tariff hikes of up to 50% being implemented by telecommunication companies¹ (telcos) have the potential to double the industry's EBITDA² next fiscal. This is a structural positive for an industry weighed down by weak cash flows and mounting debt.

CRISIL expects the leverage ratio (debt/EBITDA) of the industry to improve to 4.6 times next fiscal from 7.5 times in fiscal 2019 – if the EBITDA improves as expected – and after factoring in licence fee payouts following a recent Supreme Court order.

Further, as operating cash flows improve, telcos will be in a better position to arrange funding for adjusted gross revenue (AGR)-related payouts that they have to make.

CRISIL's analysis shows the revised tariffs will improve the industry's average revenue per user (ARPU) by about 25% to Rs 145 next fiscal from around Rs 116 in fiscal 2019.

And given the high operating leverage of the telecom business, nearly 80% of this incremental revenue will flow straight to EBITDA. Our analysis shows every Re 1 increase in ARPU adds about Rs 1,000 crore to the industry's EBITDA. With 25% growth in blended ARPU expected, EBITDA could double in fiscal 2021 to about Rs 60,570 crore from Rs 29,450 crore last fiscal (*see Annexure 1 for the calculation*).

We believe the latest tariff hikes would accelerate SIM consolidation and curb subscriber additions and hence our calculation factors in no growth in subscriber base.

Says Sachin Gupta, Senior Director, CRISIL Ratings, "The crucial part now is pricing discipline and extent of down-trading from current plans to cheaper ones by subscribers. That will determine the kind of net gains that telcos will make in the near-term."

Additionally, the final outcome of the AGR issue (for which review petitions are filed in the Supreme Court) will have an impact on the already stretched debt profiles of telcos. The top 3 operators had Rs 3.3 lakh crore of debt as on September 30, 2019.

Says Nitesh Jain, Director, CRISIL Ratings, "Our base-case assumes a payout of Rs 50,000 crore in licence-fee arrears by these players. Any additional liability will stretch their balance sheets and necessitate fresh equity infusion and support from sponsors to maintain credit profiles."

We have not factored in any outgo towards purchase of 5G spectrum at the auctions expected in the near-term, and any significant payout will require a change in our thesis.

The tariff hikes are a good opportunity for the industry to repair its financials and become sustainable.

¹Our EBITDA impact analysis is based on Bharti Airtel-India mobility business, Vodafone Idea and Reliance Jio. Whereas Debt/EBITDA is based on Bharti Airtel-consolidated, Vodafone Idea and Reliance Jio.

² Earnings before interest, tax, depreciation and amortization

Annexure

EBITDA projection for FY21 and sensitivity analysis

Particulars	Units	FY19	FY21 projections	
			Base case	Downside scenario
ARPU	Rs/month/subscriber	116	145	139
ARPU growth	Percentage	--	25%	20%
Revenue	Rs crore	1,28,930	1,69,150	1,62,400
EBITDA ¹	Rs crore	29,450	60,570	55,150
EBITDA margin	%age	23%	36%	34%

Key assumptions

1. We have analysed the tariff hikes announced by top 3 telcos across various prepaid plans. The average tariff hike works out to ~30%.
2. Actual change in blended ARPU (i.e. actual realisation based on the revised tariffs for the prepaid plans and the existing post-paid plans) depends on change in consumer behaviour on account of steep hike in tariffs and change in competitive intensity.
3. Our base case (~25% hike in blended ARPU) factors in 30% hike in prepaid tariffs, current mix of prepaid-postpaid subscribers to continue, no growth in subscribers and moderate down-trading.
4. Downside scenario (~20% hike in blended ARPU) factors in the continued price competition among telcos albeit at lower intensity and high level of down-trading as the top telcos' plans are still 10-20% cheaper than the other two telcos.

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