

DoT bats for three-player market

Our recent interaction with senior DoT officials suggests a more pragmatic and rational stance than what some recent media reports mention: 1) the DoT is keen on ensuring that India remains a three private player market and its own assessment tallies with our estimate that ARPU has to double from current levels; 2) it is hopeful of the SC softening its stance, if telcos demonstrate their intent to pay AGR dues (by paying a part of this before 17-Mar-2020); 3) a fresh, accurate reassessment of AGR dues, keeping in mind actual payment timelines, may yield a number that is up to 15% lower than the current demand; and 4) other measures could be simplification of the AGR definition prospectively and reducing the interest rate for deferred spectrum payment. Key risk is the SC imposing fresh punitive measures when it learns that the entire amount due has not been paid; however, we believe this is unlikely.

DoT wants a 3-player market; hopeful of SC leniency: DoT wants to ensure that VIL remains a strong player. It hopes that if telcos demonstrate their intent to pay by depositing ~Rs300bn by 17-Mar-2020, the SC may be amenable towards recovering the remaining dues via instalments. Till date, Bharti has paid Rs180bn, VIL Rs35bn and Tata Rs22bn. The government expects VIL to pay another Rs60bn by 17-March.

AGR burden for telcos may be 10-15% lighter, based on accurate assessment: The demands were ~Rs370bn/Rs440bn/Rs130bn against Bharti/VIL/Tata. All these are subject to assessment; this is taking time, as it has to be done circle-wise on a quarterly basis from 2003. While there is no dispute on the principal amount (~25% of the total demand), the remaining is sensitive to payment-time assumptions. The variance is unlikely to be more than 15% in the non-principal portion.

Government supportive of significant ARPU increases: The DoT officials asserted that current pricing is quite low and that the ARPU has to see a sharp increase. Its view is that if data prices increase by 100%, VIL would be able to pay its dues. Our calculation also suggests that industry revenue has to more than double in three years, for VIL to service its dues.

Figure 1: VIL – Rs222bn Ebitda required in FY23 to keep net debt-to-Ebitda at 7x

(Rs m)	FY20	FY21	FY22	FY23
Ebitda	65,285	140,709	190,785	222,946
WC delta	2,000	2,000	2,000	2,000
OCF	67,285	142,709	192,785	224,946
Capex	(130,000)	(150,000)	(150,000)	(60,000)
Cash interest on non-spectrum debt	(30,130)	(21,548)	(24,359)	(26,749)
Spectrum instalment	(85,814)	0	0	(151,866)
AGR case-related payment	(100,000)	(48,300)	(48,300)	(48,300)
FCF	(278,658)	(77,139)	(29,874)	(61,969)
Rights issue proceeds	250,000	0	0	0
Proceeds from Indus stake sale	0	42,000	0	0
Increase in debt	0	0	0	0
Change in cash	(28,658)	(35,139)	(29,874)	(61,969)
Net debt* (Rs m)	1,364,680	1,466,459	1,569,471	1,561,531
Net debt-to-Ebitda	20.9	10.4	8.2	7.0

Source: Company, IIFL Research; Note: *After taking Rs400bn AGR liability, with Rs100bn paid in FY20 and the remaining paid in 10 equal annual instalments

Figure 2: VIL requires industry revenue Cagr to more than double in the next 3years

	(Rs bn)
Target Ebitda for VIL in FY23	223
Ebitda margin	32%
Total revenue	695
Fixed line + enterprise revenue	28
Mobile revenue	667
Assumed RMS	20%
Required industry revenue in FY23	3,333
Est. industry revenue in FY20	1,435
Revenue Cagr required	32%

Source: IIFL Research

As the March 17th Supreme Court (SC) deadline for AGR payment looms, there has been a slew of news articles citing the DoT's hawkish stance on this issue. Our recent interaction with senior DoT officials suggests a more pragmatic and rational stance: 1) the government is keen on ensuring that India remains a three private player market and its own assessment tallies with our estimate that ARPU has to double from current levels; 2) the GoI is hopeful of the SC softening its stance, if telcos demonstrate their intent to pay AGR dues (by paying a part of this before 17-Mar-2020); 3) a fresh, accurate reassessment of AGR dues, keeping in mind actual payment timelines, may yield a number up that is to 15% lower than the current demand; 4) it may redefine AGR, to make it simple and non-controversial going forward; and 5) it may reduce the interest cost for the deferred payment (by linking it to MCLR), considering the drop in yields of ~200bps since the interest rate was fixed. The key risk is the SC imposing fresh punitive measures when it learns that the entire amount due has not been paid; however, we believe this is unlikely.

DoT less hawkish than what media reports suggest: Media reports mention that DoT officials have firmly stated that telcos cannot "manipulate the government for a bailout and relief measures will be contingent on balance payment of dues by the companies". Some reports also say that DoT has asked JIO and Bharti about their capacity to port out VIL's subs in the eventuality of VIL's shutdown. There are also reports that mention up to 40% increase in the telcos' AGR dues after the DoT's fresh assessment. Our recent meeting with DoT at senior levels indicates that most of these media reports are exaggerated.

DoT wants a 3-player market; hopeful of SC leniency: The DoT officials made it clear that it wants to ensure that VIL remains a strong player. The DoT hopes that if the telcos demonstrate their intent to pay by depositing ~Rs300bn by March 17th, the SC may be amenable towards recovering the remaining dues via instalments. Till date, Bharti has paid Rs180bn, VIL Rs35bn and Tata Rs22bn. The DoT expects VIL to pay another Rs60bn by 17-March-2020 (VIL had Rs128bn cash, as of end-3Q).

AGR burden for telcos may be 10-15% lighter, based on accurate assessment: The numbers provided by the DoT to the SC in the

affidavit included both licence fee (LF) and spectrum charge (SUC) components. The demands were ~Rs370bn/Rs440bn/Rs130bn against Bharti/VIL/Tata. The remaining amounts are raised on RCOM and Aircel, both of which are in the NCLT. RCOM's dues of Rs210bn will not be incident on JIO, as DoT would honour the indemnity provided by RCOM to JIO.

All these are subject to assessment; this is taking time, as it has to be done circle-wise on a quarterly basis from 2003. While there is no dispute on the principal amount (~25% of the total demand), the remaining is sensitive to payment-time assumptions. The variance is unlikely to be more than 15% in the non-principal portion.

After paying Rs180bn, Bharti stated that this was its full & final payment based on self-assessment, which is only ~50% of DoT's original claim. This divergence is significantly more than what DoT estimates. Bharti's tactic could be that of paying a significant amount and waiting for the government's future steps. In a case where the eventual liability is higher, it could always make the remaining payment even in instalments (the GoI may allow this as part of easing VIL's burden).

GoI supportive of significant ARPU increases: The DoT officials asserted that current pricing is quite low and that the ARPU has to see a sharp increase. Its view is that if data prices increase by 100%, VIL would be able to pay its dues. Our calculation also suggests that industry revenue has to more than double in three years, if VIL has to service its dues (assuming a Rs400-bn AGR hit, with Rs100bn paid in FY20 and the remaining over 10 annual instalments). There has been no action on the floor price, after the TRAI floated a consultation paper on this in Dec-2019.

Concessional rate fund or tax set-offs unlikely: In our meeting with DoT, we also brought up the ~Rs160bn tax relief for VIL, almost equally split between GST set-offs and the income tax (I-T) refund. DoT mentioned that on the GST item, only the portion pertaining to the central government (but not states) is in its control, and that there is no guarantee it can be adjusted (GST officials told us that there is no proposal with them to adjust this credit). On VIL's Rs85-bn tax credit, DoT officials were non-committal, suggesting that this too is not really

immediately available as a relief. The DoT also dismissed as fictional the news reports of the government setting up a relief fund with the AGR take and giving concessional credit.

Others

- The bank guarantees (BGs) have a cross default clause. Any default can potentially trigger invocation of BGs. Since spectrum instalment payments are already under moratorium, a default can happen only on the AGR dues. This renders the cross default clause theoretical at this point.
- For FY21, DoT had submitted Rs500bn estimate for telecom receipts, which did not factor in any AGR dues. Rs1.33trn in the budget document probably factors in receipts from fresh auctions. The reserve prices for the next spectrum auctions are admittedly high. The government would consider lowering these if spectrum goes unsold (highly likely, in our view).
- Spectrum from telcos that shut down would be sold through NCLT and not DoT. This would also not have the onerous clause of the buyer inheriting the seller's dues.

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SELL - Stock expected to give a return 10%+ below the average return on a debt instrument over a 1-year horizon.

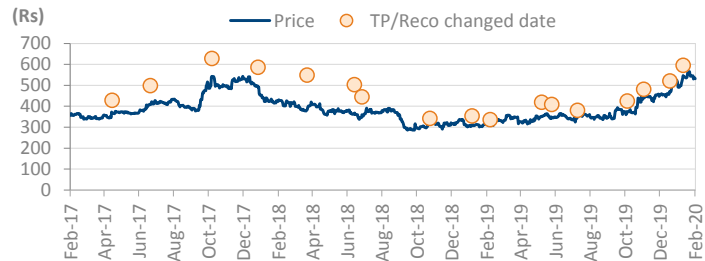
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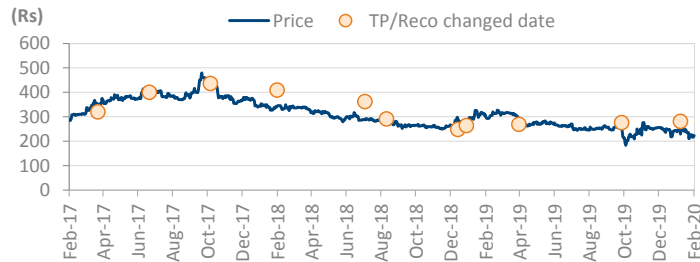
Bharti Airtel: 3 year price and rating history



Date	Close price (Rs)	Target price (Rs)	Rating
06 Feb 2020	534	595	BUY
14 Jan 2020	469	520	BUY
29 Nov 2019	437	480	BUY
31 Oct 2019	368	424	BUY
05 Aug 2019	343	380	BUY
21 Jun 2019	349	408	BUY
03 Jun 2019	349	419	BUY
05 Mar 2019	308	335	BUY
01 Feb 2019	306	353	BUY
19 Nov 2018	333	342	BUY
23 Jul 2018	346	444	BUY
10 Jul 2018	363	503	BUY

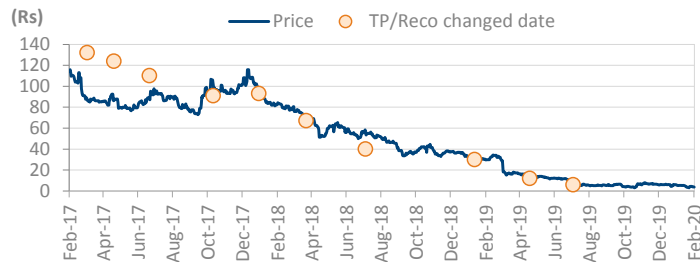
Date	Close price (Rs)	Target price (Rs)	Rating
18 Apr 2018	382	548	BUY
22 Jan 2018	498	586	BUY
02 Nov 2017	538	628	BUY
17 Jul 2017	407	498	BUY
11 May 2017	373	428	BUY

Bharti Infratel: 3 year price and rating history



Date	Close price (Rs)	Target price (Rs)	Rating
03 Feb 2020	248	281	ADD
23 Oct 2019	258	276	ADD
26 Apr 2019	271	269	REDUCE
24 Jan 2019	277	264	REDUCE
09 Jan 2019	298	248	REDUCE
06 Sep 2018	271	291	REDUCE
30 Jul 2018	289	362	BUY
26 Feb 2018	340	409	BUY
01 Nov 2017	442	436	REDUCE
17 Jul 2017	418	400	REDUCE
18 Apr 2017	344	320	REDUCE
22 Feb 2017	296	353	REDUCE

Idea Cellular: 3 year price and rating history



Date	Close price (Rs)	Target price (Rs)	Rating
30 Jul 2019	7	6	REDUCE
15 May 2019	14	12	REDUCE
07 Feb 2019	30	30	REDUCE
31 Jul 2018	58	40	REDUCE
18 Apr 2018	71	67	REDUCE
25 Jan 2018	94	93	REDUCE
06 Nov 2017	106	91	REDUCE
17 Jul 2017	89	110	BUY
16 May 2017	86	124	BUY
30 Mar 2017	89	132	BUY
13 Feb 2017	110	140	BUY