

CENTRE ROLLS OUT LIFELINE FOR DEBT-RIDDEN TELECOM SECTOR

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NEW DELHI : India on Wednesday took several steps to offer relief to telecom companies burdened by large regulatory dues and attract foreign capital into the telecom sector.

Relief on computing dues relating to AGR, adjusted gross revenue, a four-year moratorium on dues, and the option for the government to convert dues into equity after the moratorium period expires are key elements of the relief package approved by the Union cabinet.

The cabinet also liberalized foreign ownership rules by allowing 100% foreign direct investment through the automatic route with safeguards. Currently, 100% FDI is allowed in the sector, but only 49% was on the automatic route, and any investment above that limit required government approval.

The steps are expected to benefit Vodafone Idea and Bharti Airtel, saddled with large AGR dues. The relief is likely to ease their financial burden, help save jobs in the sector and ensure much-needed competition in the industry.

Telecom minister Ashwini Vaishnaw said AGR dues were a contentious and highly litigated issue. "It has been decided to rationalize the AGR definition. Non-telecom revenue will be removed from AGR. This resolves this contentious issue," Vaishnaw said.

Vodafone Idea had in August approached the Supreme Court for a review of its 23 July order rejecting a plea from companies to allow the government to correct errors in the computation of AGR dues. After the four-year moratorium, the government will have the option to convert the remaining dues into equity in the companies. "Whatever instalment is left after four years, if it is felt that dues are to be converted into equity, the government will have that option. It is not the company's option," Vaishnaw told reporters after the cabinet meeting.

He said the cabinet approved nine structural changes and five reform measures. To protect government revenues, companies availing of the moratorium will have to pay interest. This would be at the rate of marginal cost of funds based lending rate (MCLR) plus 2%. This moratorium would resolve the cash flow problem, and the improved cash flow can be utilized to upgrade technology, the minister said.

The other structural reform is about spectrum user charges and licence fees and other charges. "This regime was an undue burden on the industry participants. Today, it has been rationalized. Monthly compounding of interest has been changed to annual compounding. A very reasonable interest rate of MCLR plus 2% has been approved, and the penalty has been eliminated," Vaishnaw said, adding that fresh investments will create more jobs.

Bharti Airtel chairman Sunil Bharti Mittal, Reliance Industries chairman Mukesh Ambani, Aditya Birla Group chairman Kumar Mangalam Birla and Vodafone Group chief executive officer Nick Read welcomed the move. Mittal described the policy steps as seminal reforms, while Jio called them timely steps towards strengthening the sector. Nick Read commended the government's resolve to find a comprehensive solution "that would support a competitive and sustainable telecom sector in India."

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