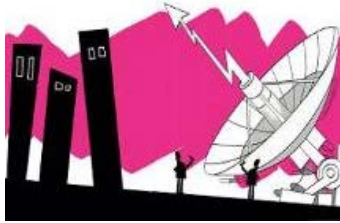


Telcos may face funding blues

Deepali Gupta, ET Bureau | Mar 17, 2015, 02:50PM IST

MUMBAI: As telecom operators bid aggressively to retain existing airwaves and total bids crossed Rs 1.03 lakh crore on Monday, leading domestic lenders are getting worried, expressing reservations about their ability to disburse loans to the sector.



Of the Rs 1.03 lakh crore, the country's top 4 telecom operators have already committed to coughing up more than Rs 80k crore in the ongoing spectrum sale.

"We will be extremely cautious about lending to the sector," said Arundhati Bhattacharya, chairperson of State Bank of India.

"We'll go on a case-by-case basis and will be very selective. We will closely watch the leverage position of all telcos." SBI has

lent more than Rs 40,000 crore to the sector. Telcos are bidding heavily to retain airwaves and protect revenue rather than adding to it, making the funding case weaker, said Rajiv Lall, chairman of Infrastructure Development Finance Corp (IDFC).

"If the purpose of the auctions is to renew licences, which will reduce the return on equity and reduce cash flows, nobody will want to lend to these companies," said Lall.

IDFC has an exposure of more than Rs 18,000 crore to telecom. Of the Rs 1.03 lakh crore, the country's top four telecom operators — Bharti Airtel, Vodafone India, Idea Cellular and Reliance Communications — have already committed to coughing up more than Rs 80,000 crore in the ongoing spectrum sale. Monday was the eleventh day of bids in the auction that started March 4.

"The overall bidding in the ongoing auctions is significantly ahead of our estimates, outflows for operators being higher by 30-50% versus our initial estimates," brokerage Barclays said in a recent report.

The combined upfront payment, at current bidding levels, is expected to be Rs 21,870 crore. While most telcos largely have funds tied up for the upfront payments, analysts said Idea may need to raise around Rs 1,500 crore more.

Two analysts at foreign brokerages and one at a local one expect the Aditya Birla group company to spend the most — around Rs 30,000 crore — in the auctions to win back airwaves in nine circles where its permits are coming up for renewal.

With the total bid amount continuing its inexorable rise, investors voted with their feet on Monday. Idea slumped 4.9% to Rs 173.20, Reliance Communications dropped 4.1% to Rs 67.20 and **Bharti Airtel** fell 2.8% to Rs 389.15, all underperforming the BSE Sensex, which declined 0.23%.

A bigger concern is that the burden of interest outgo and cash drain from auction payments over the next several years could affect expansion prospects of companies that cannot count on price increases to compensate for the outflow. With scheduled commercial banks having a combined

exposure of about Rs 86,000 crore to the sector, bankers say they already have too much at stake when it comes to telecom.

The constant fear of defaults and continuing losses, apart from regulatory uncertainty, have made bankers additionally cautious.

"We have restructured loans for Tata Teleservices, Aircel, and Reliance Communications in the past three years," said a banker, who asked not to be named. The three companies couldn't immediately be reached for comment.

Funding options

While domestic banks may be reluctant to lend, the funding requirements of telcos remain substantial.

Apart from auction payments, telecom operators are talking of initiatives that will need capital expenditure of several thousand crores of rupees. For instance, Bharti Airtel is looking to roll out new 4G networks, Idea is looking at greater rural penetration and Tata Teleservices is contemplating wider 3G coverage and possibly starting some 4G services as well.

Bankers and industry experts said companies can meet future funding needs through a combination of equity sales, overseas borrowings and instruments such as non-convertible debentures.

The sale of non-core assets such as telecom towers to raise funding could be another option over the next three years, they said. Bharti Airtel raised just short of Rs 2,000 crore by selling shares in its telecom arm, Bharti Infratel, and has another sale lined up in case it needs more funds, said a person close to the company.

The government allows a tripartite agreement in which a company can use spectrum as collateral to raise money, said Vaibhav Parikh, partner at law firm Nishith Desai Associates.

But for the last three years, the DoT has not signed any such agreement and banks are not interested in giving out money based on airwave holdings, he said.