



Telecom 2021

Revolutionising the sector for future growth

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India has the world's second largest telecom market, with a teledensity of 61 per cent and an internet subscription rate of 89 per cent. However, the country's telecommunications sector has had a traditionally conservative (and often restrictive) regulatory framework, with a focus on national security and government control over market players. This incongruous situation has recently been addressed through significant policy developments such as the union cabinet's announcement of various structural and procedural reforms on September 15, 2021, with a view to generate more employment opportunities, encourage investment, and reduce the financial/regulatory burden on telecom service providers (TSPs).

Key reforms

The key structural reforms include rationalisation of adjusted gross revenue (AGR), on which the licence fee is payable, with non-telecom revenue being excluded on a prospective basis while calculating AGR; rationalisation of bank guarantees; allowance of 100 per cent foreign direct investment under the automatic route in the telecom sector (with specific carve-outs); and removal of spectrum usage charges for spectrum acquired in future auctions. Certain procedural aspects have also been streamlined to ensure ease of operations. These include permitting self-know your customer (KYC), revising the e-KYC rate to Re 1, and replacing paper customer acquisition forms with digital storage of data.

Separately, in order to address the liquidity requirements of TSPs, the cabinet also approved a moratorium/deferment of up to four years on the annual payment of AGR debts as well as debts related to spectrum purchased in past auctions (excluding

the auction of 2021); an option to pay interest amount arising due to the said deferment by way of equity; and an option to convert amounts due towards deferred payment into equity, based on the government's decision at the end of the moratorium/deferment period.

The Department of Telecommunications (DoT) further released the Revised Guidelines for Other Service Providers (OSPs) in June 2021, catering to information technology-enabled service and the business process outsourcing (BPO) market. These guidelines, which lay down the regulatory framework for entities providing voice-based BPO services, have liberalised their operations by deleting the erstwhile requirement of mandatory registration and filings with DoT.

In October 2021, the regulator also launched the production-linked incentive (PLI) scheme for promoting the manufacture of telecom and networking products in India, under which 31 companies were granted approval. Another significant project of DoT, BharatNet, received a shot in the arm following its initial slack implementation. In June 2021, the central ministry approved a viability gap funding support of up to Rs 190.41 billion for implementation of the project through the public-private partnership model. The project has also been expanded to cover all inhabited villages in 16 states.

Impact on telcos and other stakeholders

The relief measures announced for TSPs are expected to increase their cashflow and liquidity, thus helping improve their current poor financial health and reducing default risks for lender banks. The business traction is already evident from Vodafone Idea's recent announcement of conversion of debt to equity, giving the gov-

ernment a significant shareholding in the company and substantially decreasing debt as well as improving the cashflow.

The opening up of the telecom sector has triggered the flow of investment (both domestic and foreign), which is likely to increase. Stakeholders are hopeful that these reforms will usher in a new era of distinctive growth for India's economy.

The PLI scheme is expected to substantially increase indigenous manufacturing of telecom equipment, as well as provide a significant boost to local research and development. Investments to the tune of around Rs 33.45 billion are envisaged over the next four years and are expected to create additional employment opportunities. Further, the entry of private players in the BharatNet project will enable faster and more efficient implementation.

Reform measures needed and the way forward

The future hinges on building an ideal ecosystem where industry players can come together to build an environment that can be sustained in the long term, in a manner beneficial to both telcos and end-consumers. Regulators, TSPs, infrastructure providers, original equipment manufacturers and all concerned stakeholders will need to collaborate and employ a shared responsibility model. Also, it is critical for the regulator to put in place a robust regulatory regime, keeping in view the scale and functional requirements of future networks, and accommodating the evolving technologies.

Several opportunities have now opened up in the telecom sector, with a focus on better connectivity and bandwidth. Hence, with the quality of service taking a pole position, India is poised for a boom in the telecom sector in this decade. ▲