

TELECOM TRIALS

The deadline for AGR payment looms large over not just telecom operators, but also ancillary players such as infra providers. There's some relief from ratings firms, though, which are not likely to term missed payments as 'defaults'

For Vodafone Idea Vendors, ₹4,000cr Dues Are At Stake

VIL's collapse will mean end of road for some gear makers as sector's needs will shrink

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Kolkata: Vodafone Idea's network vendors could face challenges in recovering nearly ₹4,000 crore (\$550 million) in dues if the loss-making telco fails to survive the adjusted gross revenue (AGR) shock and is forced to shut, analysts and industry executives said. They added that such a scenario could even drive some top gear makers to scale down or shut India operations as there wouldn't be room for five global vendors if the sector consolidates down to a private duopoly comprising Bharti Airtel and Reliance Jio Infocomm. Chinese vendors Huawei and ZTE may find it harder to get their money back as it's not backed by letters of credit (LCs). Money owed to European vendors Nokia and Ericsson is backed by LCs, which means they have a stronger chance of recovering some, if VIL files for bankruptcy by moving the NCLT, a person with knowledge of the matter told ET. VIL owes over \$300 million to Huawei and ZTE and around \$240 million collectively to Nokia and Ericsson.

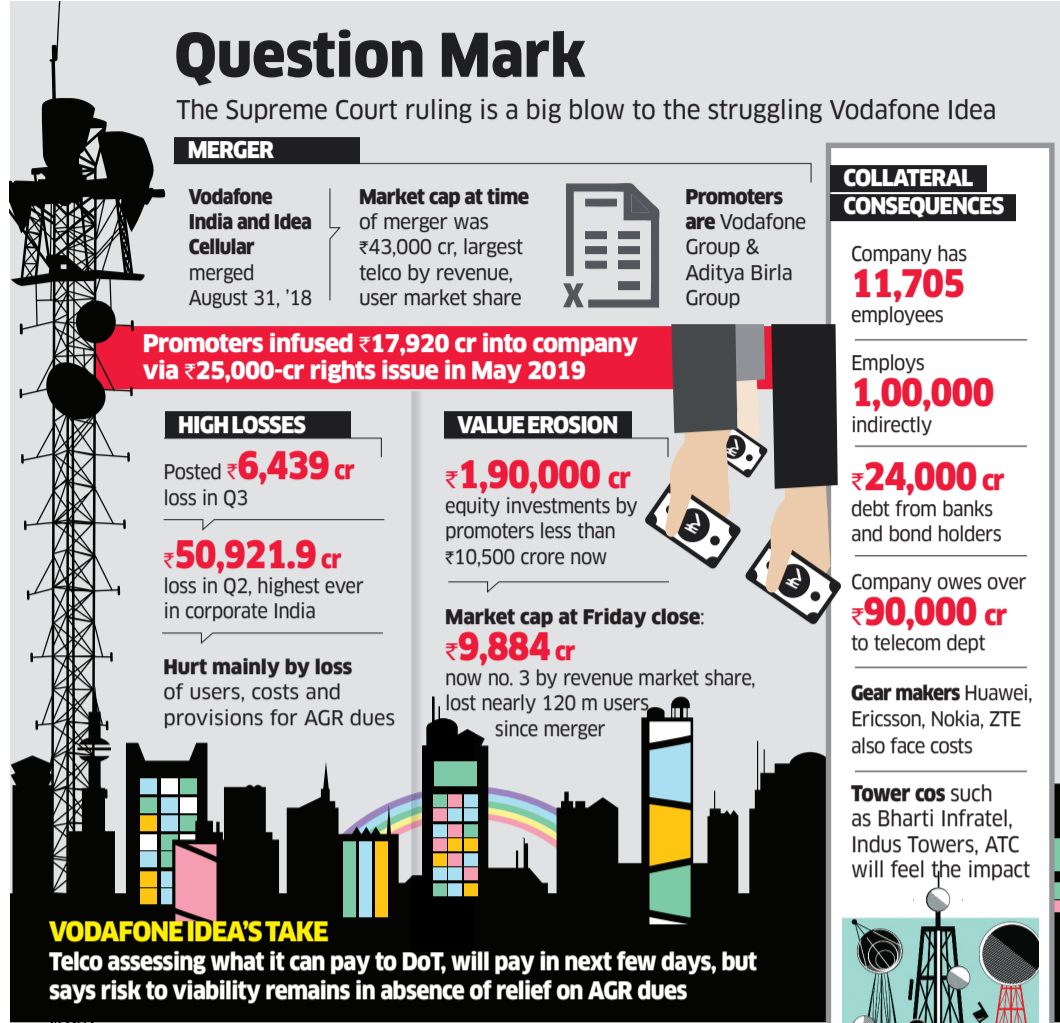
structure, given that Jio is building its own towers and Airtel primarily has tenancies with Bharti Infratel and Indus," ex-Bharti Airtel CEO Sanjay Kapoor told ET. Analysts said global network vendors will face bigger business continuity risks and be forced to review their India plans if the telecom market becomes a duopoly. Since Jio buys gear only from Samsung, future business and revenue streams of the remaining four vendors could be at a risk if solely dependent on Bharti Airtel. Kapoor said the vendors space would see consolidation in India as there won't be room for five global network gear suppliers in a two-telco market. Raviv Sharma, research head at SBICap Securities, backed this view, saying it may be "too complex for Airtel to work with four different vendors — Nokia, Ericsson, Huawei and ZTE — which could definitely reduce the business case for some suppliers, driving them to shrink their India operations." Experts said VIL's survival is unlikely unless there is fresh equity infusion from co-promoters as the chances of any relief.

Licence Fee Default May Not Lead to Ratings Cut

Agencies CARE, Crisil, Icra, India Ratings to meet, review creditworthiness of stressed operators

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Mumbai: Ratings companies are unlikely to construe missing government payments by telecom companies as default for now, unless Department of Telecommunications (DoT) invokes the bank guarantees furnished by them, four people with the direct knowledge of the matter told ET. Payment of licence fee is a "commercial obligation," rather than a "financial obligation" where a default would have warranted rating cuts, they said. This could provide at least temporary relief for investors of Vodafone Idea, Bharti Airtel and Tata Teleservices. Ratings companies CARE, Crisil, ICRA and India Ratings are meeting this week to review the creditworthiness of telcos. Ratings firms did not



DoT to Decide on Next Step Today

Lower principal will lead to a reduction in interest and penalties. Of the DoT estimated dues of more than ₹89,000 crore for the two telcos, interest and penalties account for 75%. "This (the self-assessment) itself is a very tedious process — it requires the companies to open their records in a circle-wise manner for the last 16 years and add those items, the penalty and interest thereof and so on," said a telecom executive. DoT may issue fresh notices for the balance dues if the telcos' estimates don't match their own, or take other action against them for not paying up on time, officials said. The course of action will be decided on Monday since the telcos hadn't paid by the Friday midnight deadline some of the circle offices had set. Some other circle offices had sought 'immediate' payment. Under the rules, DoT can encash bank guarantees submitted by telcos for unpaid dues and can even cancel licences as a final step. Vodafone Idea and Bharti Airtel didn't respond to queries. Airtel sources said that the telco's self-assessment shows the dues to be "significantly lower" than DoT's estimates. Bharti Airtel has already raised more than \$3 billion through a private placement of shares and an overseas bond issue to meet its AGR obligations. Vodafone Idea can use ₹2,826 from its ₹25,000 crore rights issue proceeds for AGR payments. In addition, the company can call upon Vodafone UK to cough up ₹8,000 crore towards payment of AGR dues. The telco's books show cash and cash equivalents of ₹23,114 crore as of December 2019. The telco also expects about ₹4,500 crore from the sale of its stake in the Bharti Infratel-Indus Towers merged entity. But that depends on when the merger will close, with the deal already delayed pending government clearances. It also hopes to sell its optic fibre and data centres but those deals may take a while to close as well. "The telcos have come under increasing pressure to pay their dues urgently after the Supreme Court on Friday rapped them and the government for non-payment by the January 23 deadline. The court threatened the telcos with contempt proceedings and personal appearance of their top executives unless dues were paid by the next hearing, which is set for March 17. This prompted Bharti Airtel to say it would be paying ₹10,000 crore by February 20 and the balance — as per its own assessment — by March 16. Vodafone Idea said it was assessing what it could pay as part of its dues and plans to do so in the next few days. However, in the same statement, the company once again warned of the continuing threat to its viability in the absence of judicial relief in the dues. On Friday, Vodafone Idea chairman Kumar Mangalam Birla met telecom minister Ravi Shankar Prasad to discuss the situation. The telco has been highlighting the negative impact on the telecom ecosystem and the jobs that will be lost if telco is forced to shut. Airtel, Vodafone Idea and Tata Teleservices have been trying to get relief from the Supreme Court on the latter's verdict of October 24 that widened the definition of AGR to include non-core items. This left 15 telcos facing ₹1.47 lakh crore in dues, with Airtel, Vodafone Idea and Tata Teleservices the worst hit.

reply till press time Sunday to ET's emails seeking comment. "The ability to pay the government will likely reflect what liquidity stress (the telcos are facing) in repaying other lenders. Ratings companies will assess that," said one of the people. Any revision on credit ratings

may only be considered based on a broader sector outlook. Still, Vodafone Idea is seen to be more vulnerable for a rating cut, as its estimated cash balance of ₹12,000 crore is short of meeting even immediate debt obligations. The joint venture between UK's

Vodafone Group and India's Aditya Birla Group has more than 1.26 lakh crore of debt obligations. DoT holds bank guarantees of an estimated ₹27,000-32,000 crore from telcos against their spectrum licence fee, said a senior banker. If it decides to invoke the guarantees, banks that have issued those will have to pay the money on behalf of the telecom companies. As per regulations, companies must then pay banks within 30 days. "Vodafone (Idea) may be most vulnerable to such a situation while the rest two have money to pay," said a market analyst. While Bharti Airtel has funds raised through capital market borrowings to pay the arrears, Tata Teleservices is likely to have arranged internal or bank credit lines. Airtel and Tata Teleservices are rated AA and AA-negative, respectively, with a stable outlook.

Telcos Likely to Pay Dues Today

NEW DELHI: Airtel, Vodafone Idea and Tata Teleservices are likely to make payment for adjusted gross revenue (AGR) dues on Monday to avoid stringent punitive action from the telecom department, according to an official source. The three have informed DoT they will make only partial payment, as per their representatives. "Airtel, Vodafone Idea and Tata Teleservices have said that they will make payments on Monday. DoT will take action after evaluating the amount paid," said an official. — PTI

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SOME UNMISSABLE SESSIONS AT STAR FLOW

- How to manufacture desire**
By **Nir Eyal** (bestselling author of 'Hooked' and 'Indistractable')
- The new brand model — are you creating brands or consumers?**
By **Marty Neumeier** (author and leading expert on brand innovation)
- Simplicity delivers beyond-tech solutions**
by **Sonam Wangchuk** (innovator education reformist & inspiration for the film '3 Idiots')
- Design Thinking and Customer Experience Transformation**
By **Ajay Aggarwal** (Design Thinking-Practice Lead, KPMG India)
- Paradigm Shift of Rural Market**
By **Benjamin Mathew** (partner, business strategy, MART)
- Neuroscience & Marketing**
By **Dr. Elise Temple** (vice president, Nielsen Consumer Neuroscience)
- Persuasion in Marketing**
By **Patrick Renvoise** (co-founder & chief persuasion officer, SalesBrain)
- Behavioural Science in Marketing**
By **Richard Shotton** (author and behavioural science expert)
- Blockchain in Marketing**
By **Jaspreet Bindra** (entrepreneur, author, speaker, consultant at Digital Matters)

DISCUSSIONS AND CONVERSATIONS

- Brand Building vs Performance Marketing**
Panellists: Tapan Singhel (MD & CEO, Bajaj Allianz General Insurance), Hitesh Oberoi (Co-Promoter, MD and CEO at Info Edge India Ltd - Naukri/99acres/Shiksha/Jeevansathi), Rajeev Karwal (chairman of Millagrow Robots) and Shripad Nadkarni (founder chairman of Maverix Platforms)
Moderator: Chandrasekar Radhakrishnan (vice president-strategy & insights, Coca-Cola India & South West Asia)
- Sustainability and the Circular Economy**
Panellists: Prabodha Acharya (chief sustainability officer, JSW Group), Ritesh Ghosal (chief of marketing and insights - Infiniti Retail, Cromax) and Santosh Iyer (vice-president, sales & marketing, Mercedes-Benz India)
Moderator: Chandra Bhushan - CEO, International Forum for Environment, Sustainability & Technology (iFOEST)
- What will take to succeed in a difficult economic scenario?**
Panellists: Subodh Bhargava (independent director chairman at Tata Communications Ltd and Wartsila India Ltd), Girish Agarwal (promoter director, Dainik Bhaskar Group & MD of DB Power Ltd) and Rohit Saran (managing editor of The Times of India)
Lead Panellist: Hemant Malik (divisional chief executive, foods business, ITC Ltd)
- How brands think about marketing on digital in innovative ways**
Panellists: Sunil Suresh (group chief marketing officer, MakeMyTrip Ltd), Meera Iyer (chief marketing officer at Medifile.com) and Praveen Sharma (senior vice president, ad business, Paytm)
Moderator: Shveta Singh (national head, Digital for Motivator, GroupM)

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Notices Also to Cos

der the reverse-charge mechanism. This means companies cannot retrieve the cost from consumers and cannot avail credit to offset it. "Prior to introduction of GST, service tax was payable under reverse-charge mechanism on such charges by telecom companies," said Rajat Bose, partner at law firm Shardul Amarchand Mangaldas. "The levy of service tax at the rate of 15% on AGR dues will be a cost outgo for telcos since they may not be eligible to avail credit of such service tax." Carriers including Bharti Airtel and Vodafone Idea, along with Tata Teleservices, Telenor, Airtel and Reliance Communications, have to pay ₹1.47 lakh crore to the government at the earliest, after the Supreme Court came down heavily on the companies for not paying by the deadline it had imposed.

Investors In a Spot

ter multiple rounds of deliberation over the years and therefore should be left unchanged. "It is imperative that status quo is maintained on the same to ensure investments flow into these, as number of such investments/structures are at different stages of implementation, based on the current understanding of the taxation system," said Vikas Vasal, national leader, tax, Grant Thornton in India. Vasal pointed that the government is also looking at using these vehicles to monetise infrastructure assets and said that the recent budget proposals should be looked at from the investors' perspective. InvITs and REITs were introduced in 2014 but they only took off in 2017 after several tweaks were made following multiple stakeholder consultations. Also consistent with the global framework, they were provided a single level of taxation. Nearly \$3.6 billion has already come through the route and another \$5 billion of InvIT transactions have already been announced. These flows are also crucial to the government financing its ₹103 lakh crore investment programme.

Kiri Industries Limited

Future Full of Colours....

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Operational Highlights of the Quarter :

- For the quarter ended December 31, 2019, DyStar turned in a robust set of numbers, with PAT of USD 42.10 Mio. Kiri holds 37.57% stake in DyStar.
- Kiri has already won the minority oppression suit filed against Senda. Senda has been ordered by Hon'ble Singapore International Commercial Court, to buy out Kiri's stake in DyStar. The hearings to determine valuation of Kiri's stake in DyStar, are expected to commence by end-February, 2020.
- The standalone performance of Kiri was affected by general low prices of the products.
- Despite this, the company has managed to improve its standalone EBITDA margin to 10.52% from 10.14% from the previous quarter.
- The December quarter is a seasonally slow quarter for the business on account of annual maintenance of plant and shorter Business season on account of holidays.
- Consolidated numbers have been encouraging with Lonsen Kiri delivering decent performance.

DyStar Results :

DyStar, the world's largest dyes company in which KIL owns 37.57% stake, continues to improve its global strength and product portfolio resulting in sustained performance and profitability. For the quarter under review the DyStar has clocked revenue of US\$ 228.30 Mio and Profit of US\$ 42.10 Mio.

Particulars	(US\$ in Mn.)		
	Quarter ended 31.12.2019	Quarter ended 30.09.2019	Quarter ended 30.06.2019
Revenue	228.30	246.80	298.70
EBIT	11.80	38.00	33.70
Profit After Tax	42.10	30.40	(10.27)

Unaudited Consolidated financial results for the quarter ended December 31, 2019

Sr. No.	Particulars	Quarter	
		Unaudited 31.12.2019	Unaudited 31.12.2018
1	Income from operations		
	(a) Revenue from Operations	31,511.28	30,177.36
	(b) Other Income	192.68	19.19
	Total income from operations	31,703.96	30,196.55
2	Expenses		
	(a) Cost of materials consumed	17,668.32	20,580.57
	(b) Purchase of stock-in-trade	1,477.15	1,866.45
	(c) Changes in the Inventories of finished goods, work-in-progress and stock-in-trade	769.27	(2,717.08)
	(d) Employee benefits expense	1,256.69	1,204.85
	(e) other expenses (Manufacturing expenses (like power & fuel, labour charges), Administrative expenses and Selling and Distribution expenses)	6,174.41	4,865.21
	Total Expenses	27,345.84	25,800.00
3	EBIDTA (1-2)	4,358.12	4,396.55
4	Depreciation and amortisation expenses	1,116.25	987.60
5	Finance costs	99.85	139.06
6	Profit Before Tax (3-4-5)	3,142.02	3,269.89
7	Tax expense	731.02	595.19
8	Profit after tax (6-7)	2,411.00	2,674.70
9	Share of Profit of Associates	11,272.75	(3,539.96)
10	Total Comprehensive income after minority interest and share of profit of associates (8+9)	13,683.75	(865.26)

By Kiri Industries Ltd.
Sd/-
Manish Kiri
Managing Director

Date: February 14, 2020
Place: Ahmedabad

This is Non Statutory Release