

Go Ahead with Fare Hike, End Price War: Govt Tells Airlines, Cell Cos

But a top source in the government said telcos and airlines, on a path of self-destruction because of the price war, needed to make a reasonable increase, reports Surajeet Das Gupta.

Photograph: [Shailesh Andrade/Reuters](#)

Telecom and [airline companies](#), which have for long sought relief from the government to revive their operations, have got feelers that only a price hike could save them.

Worried over the financial state of the two promising sectors, the government's advice to them is to end the price war and go for a rational hike in rates, it is learnt.

Tariffs and fares are determined by the industry in the two sectors.

But a top source in the government said telcos and airlines, on a path of self-destruction because of the price war, needed to make a reasonable increase.

"That will help them reduce their losses and improve their balance sheets," the source said.

The thinking within the government is that a 10 per cent increase in airline fares would substantially improve the financials of the companies.

The source added that these companies were resisting such a move.

Many blame the government's lack of support as well as

predatory strategies by rivals for the situation.

The telecom sector is facing a debt overhang, which according to the Cellular Operators Association of India is over Rs 5,000 billion on an Ebitda (earnings before interest, taxes, depreciation, and amortisation) of only 1,500 billion.

Of this, about 60 per cent is for deferred spectrum obligations bought in the auctions.

MOUNTING TROUBLE

Telecom companies

■ Q1FY17 ■ Q2FY19 (₹bn)

Gross revenue



Decline

28.7%

Adjusted gross revenue



42.5%

Source: Trai

Airlines

■ Net sales ■ Net profit (₹ bn)

IndiGo



Total debt

24.00

Jet Airways



84.11

SpiceJet



12.17

Air India*



480

Note: Q2FY19 results *Projected results for FY18. Revenue was expected to be 20 per cent more than the previous year at ₹218.59 bn

The debt burden on the aviation sector has mounted to Rs 630 billion, as a result of which Jet Airways is looking for an investor to bail it out and is ready to even concede a majority stake.

National carrier Air India, on the other hand, is getting financial support from the government.

Last month, at an event organised by the Competition Commission of India, Finance Minister Arun Jaitley warned of adverse consequences of hyper-competition.

Jaitley argued that excessive competition could lead to companies pricing their products in such a way that it could cause serious stress, as everyone starts following the leader.

In telecom, incumbent operators like Airtel and Vodafone Idea are fighting a bitter price war with disrupter Reliance Jio.

A senior executive of an incumbent operator said, "Jio already has reached close to a third of the mobile revenue share. We are just three players, so all of us can get to around 33 per cent."

The executive said the government should tell them to now have rational pricing as the current rates were not sustainable.

"But they want to take away half the market, and expects us to concede them the number one slot. So we will not give up and are fighting back."

Jio has challenged rivals by publicly stating that its services would be priced at 20 per cent lower than the competition.

So, insiders in the company, say the onus of increasing the price is on it.

Jio can bank for money on its parent, Reliance Industries, which has cash reserves of over Rs 760 billion as well as

profits generated from its vibrant refining and petrochemicals business.

Bharti, on the other hand, is looking at monetising its tower business, which could generate over \$5.4 billion, apart from reducing the group debt through an IPO of its Africa business and reduce debt.

COAI Director General Rajan Mathew said the auction prices were ridiculously high and the association had written to the government for relief – a moratorium of two years on payment of deferred spectrum, linking the interest on the payment to the SBI MCLR rate instead of a fixed 9.3 per cent to 10 per cent, which is very high.

“Everyone in the DoT and TRAI agrees with us, but the debt restructuring is still to happen,” said Mathew.

Surprisingly, Jio, which is also a member of the association, has dissented the letter of demands to the government.

In airlines, budget and full-service carriers are at war over pricing.

A senior executive of a low-cost carrier, which has seen the challenging times, said, “If full-service carriers with a cost available seat kilometre which is far higher than us are selling their seats at our levels, and sometimes even lower, we have no option of increasing prices. We will not bleed as much as them because of a lower operating costs.”

He also pointed out that the government had not helped at all in bringing down taxes on ATF fuel prices, which constituted nearly 50 per cent of their operating cost.

Some FSCs, however, point out that big LCCs like IndiGo are increasing capacity and keeping fares low, making a serious dent on their bottom lines and survival as they have no choice but to go down to similar levels or lose market share.

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