

## Misplaced optimism spurs easier spectrum fee loans

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The Indian economy, while having shed much of its socialist baggage towards the close of the twentieth century, still believes in closely monitoring certain key components of its monetary system. Management of foreign exchange reserves is one example of this, with the external commercial borrowing (ECB) policy placing several restrictions, such as limiting permissible end uses, on securing loans from abroad.

### Policy amended

However, the ECB policy is not set in stone and is subject to review by the government, in consultation with the Reserve Bank of India (RBI) – the nation's central bank – which calibrates the existing policy in light of the prevailing macroeconomic environment. This was done early this month when the Ministry of Finance announced amendments to the current ECB policy in the context of the auction of 2G spectrum to be conducted under the aegis of the Department of Telecommunication.

Before the amendments, the ECB policy listed payment for spectrum allocation as a permissible end use under the automatic route (not requiring permission of either the government or the RBI).

However, refinancing in foreign currency of rupee loans to pay spectrum fees by successful bidders was only permitted under the approval route. This was further subject to compliance with certain conditions, such as procuring the loan within a period of 12 months from paying the final instalment of fees to the government; monitoring of end usage of funds by a bank authorized for this purpose; and absence of a guarantee provided by an Indian bank as part of security for the ECB.

### Red tape cut

The policy amendments were primarily designed to encourage successful bidders in the auction for 2G spectrum to pay the entire licence fee amount upfront, rather than in instalments. The policy has been tweaked to include more instances of ECB funding under the automatic route, making the procurement of borrowed funds easier by cutting through bureaucratic red tape.

For example, recipients of the new licences which have obtained rupee loans from domestic lenders to pay spectrum fees upfront to the government can now refinance such loans with a long-term ECB under the automatic route.

Similarly, short-term foreign currency loans obtained for the purpose of making upfront payment of licence fees has now been placed under the automatic route. Further, this kind of bridge financing may also be substituted with long-term ECB under the automatic route.

These amendments to a large extent were precipitated by market realities – the government expected that the auction would raise ₹400 billion (US\$7.2 billion), a figure which cash-strapped telecom companies might find difficult to raise domestically. Further, even if domestic banks were willing to provide the withdrawal for such purposes, debt financing from foreign sources would work out to be a comparatively cheaper option.

### Horses for courses

The perceived lack of ability (or unwillingness) on the part of domestic sources to entirely absorb the debt anticipated to be generated by the spectrum auction may be the reason why there has even been a dispensation that would allow successful bidders to procure external borrowing under the automatic route from their “ultimate parent company”,

without having to abide by any maximum liability to equity ratio.

The need for the auction stemmed from a Supreme Court order which cancelled the results of a previous auction process, mired in controversy due to wrongdoing purported to have been committed by the then telecom minister. Another reason for permitting easy access to financing from foreign parent entities may be that many of the successful licensees in the previous round – including Norway-based Telenor and Etisalat of the UAE – can draw on such resources, and it was expected that they could again enter the bidding fray.

### Of mice and men

There has been much speculation that added emphasis was placed on receiving the auction proceeds upfront to help ensure that the government meets its fiscal targets in the current financial year. That it adopted a “bird in the hand is worth two in the bush” approach can also be surmised from the Finance Ministry's recommendation that annual interest of 9.75% be charged for bidders opting to make staggered payments.

As it turned out, the RBI notification containing the fine print detailing the terms and conditions to which the ECB policy amendments were subject was preceded by the completion of the auction process, which proved to be a damp squib. The proceeds barely edged above ₹94 billion, a quarter of what was estimated by the government.

With another auction for spectrum on the cards before the end of the financial year, expect to see more developments in this space.

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