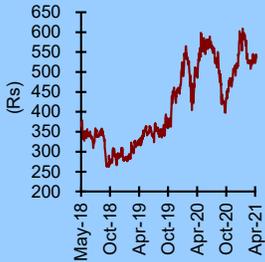


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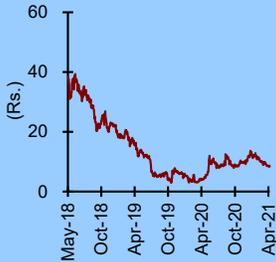
Sector update

Telecom

Bharti Airtel (BUY, Rs723)



Vodafone Idea (SELL, Rs5)



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Reliance Jio Infocomm

Revenue growth fails to impress

In Q4FY21, Reliance Jio Infocomm (RJio) had multiple misses on the revenue front: 1) underlying revenue growth was just 1.7% QoQ, slowest since commercial launch; 2) adjusting for FTTH, mobile revenues grew by just ~1%; and 3) digital revenues (JPL consolidated minus RJio) dipped 6.4% QoQ. Though the company had strong subscriber (sub) addition of 15.4mn, they would have come at low ARPU, restricting revenue recovery. For FY21, RJio generated FCFE of Rs37bn (restricted due to capex of Rs261bn), which included upfront spectrum payment of Rs150bn. Net debt stood at Rs290bn and, if we include the entire spectrum commitment, it stood at Rs726bn. Capitalised capex was Rs150bn in FY21 (21.4% of revenues). We have cut our FY22E/FY23E revenues by 2.4% each year on slower revenue growth, but see tariff hike helping drive growth, likely in H2FY22E.

- **Reliance Jio Infocomm (RJio) L2L revenues grew only 1.7% QoQ.** In Q4FY21, revenues declined by 6.1% QoQ due to: 1) interconnect charges moving to 'book & keep' regime w.e.f. 1st Jan'21, which implies nil interconnect revenues; and 2) two days' less in the quarter. Our L2L revenues for Q3FY21 was derived from deducting interconnect revenues, which is calculated from access charges adjusted for non-IUC revenues, and adding the Rs0.5bn received in net interconnect settlement. It shows RJio's revenues grew by just 1.7% QoQ to Rs174bn, and L2L ARPU (excl. interconnect revenues) dipped by 0.8% QoQ to Rs138. Sub-base expanded by 15.4mn, likely helped by new tariff plan launch on Jiophone (at 18-33% discount); however, absolute ARPU (post GST) comes to just Rs46-56 (33-40% of blended ARPU) from the Jiophone users.

FTTH subs addition should have been steady at 1.8mn-1.9mn for Q4FY21 on the base of 2.1mn in Q3FY21. If we adjust for FTTH revenues, then, underlying mobile revenues should have grown at only ~1% QoQ, which indicates RJio may be running into a risk of revenue market share loss in Q4FY21.

- **Engagement metrics have improved.** Churn rate dipped to 1.3% (vs 1.6% in Q3FY21) improving its subs retention rate, while gross subs addition increased to 31.2mn (from 25.1mn in Q3FY21). Minutes grew 6% QoQ / 17.9% YoY to 1,033-bn, and data usage rose by 5.2% QoQ / 29.9% YoY to 16,680-bn GB.
- **Network cost inflation was lower, aiding EBITDA growth.** Network cost grew by only 1.8% QoQ, but increased by 26.2% YoY, to Rs57.5bn in Q4FY21. LF/SUC cost fell 4.3% QoQ despite rise in revenues, implying some likely one-off gains. EBITDA grew 2.2% QoQ / 34% YoY to Rs83bn, and net profit too grew 2.1% QoQ, though it was restricted by rise in depreciation.
- **Capex (excluding spectrum) has normalised.** Cash capex was Rs261bn in FY21 though it includes Rs150bn upfront payment towards spectrum. Thus, capex towards network, including cost capitalisation, was Rs111bn. Capitalised capex, calculated basis movement of fixed assets plus depreciation, was Rs150bn (21.4% of revenues) in FY21. Therefore, the difference between capitalised capex and cash capex is rise in capex creditor of Rs39bn. Capitalised capex in FY20 was Rs235bn (43.2% of revenues). However, RJio is still carrying high capital works in progress despite commercial rollout of FTTH / enterprise business, which was at Rs170bn in FY21 (but dipped from Rs213bn in FY20).

- **Balance sheet remains healthy; net debt rose on spectrum purchase.** RJio net debt (including deferred spectrum liability) in FY21 was at Rs290bn (vs Rs332bn in FY20). It has bid for spectrum worth Rs571bn in Mar'21 auction and has agreed to buy Rs15bn worth of spectrum from Bharti. It has made Rs150bn upfront payment, which is reflected in capex and sits in other non-current assets. However, it has not recognised other spectrum liabilities pending spectrum allocation. If we include the entire committed spectrum payment, then the net debt would jump to Rs726bn.

We estimate capex creditors should have gone up from Rs44bn in FY20 to Rs82bn in FY21, and interest accrued but not paid (on deferred spectrum liability) should increase to Rs85bn from Rs70bn in FY20. These items don't form part of our net debt calculation.

- **RJio needs tariff hikes to offset higher cost inflation.** Network cost rose 30% in FY21 to Rs221bn and, considering rise in payment to tower and fiber InvIT, we estimate network cost inflation to remain high even in the next two years at least, not considering 5G rollout. Further, the recent spectrum purchase would add Rs29bn to D&A cost and Rs27bn to finance cost, which together are 8% of revenues. In case of low revenue growth as in Q4FY21, we see RJio running a risk of significant earnings decline in FY22. We believe the company will also need tariff hikes to maintain earnings growth momentum, which we have built-in for H2FY22E.

Table 1: Reliance Jio (standalone) financials

(Rs mn)	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	QoQ (%)	YoY (%)
Revenue	1,48,350	1,65,570	1,74,810	1,84,920	1,73,580	(6.1)	17.0
Network operation cost	45,600	52,250	54,260	56,530	57,540	1.8	26.2
% of revenue	30.7	31.6	31.0	30.6	33.1		
Access charges	13,670	13,930	15,100	15,490	1,790	(88.4)	(86.9)
% of revenue	9.2	8.4	8.6	8.4	1.0		
License fees and spect charges	15,760	18,180	19,460	20,390	19,520	(4.3)	23.9
% of revenue	10.6	11.0	11.1	11.0	11.2		
Employee cost	3,870	3,180	3,310	3,430	3,450	0.6	(10.9)
% of revenue	2.6	1.9	1.9	1.9	2.0		
SGA and other exp	7,700	7,980	7,640	7,940	8,380	5.5	8.8
% of revenue	5.2	4.8	4.4	4.3	4.8		
EBITDA	61,750	70,050	75,040	81,140	82,900	2.2	34.3
EBITDA margin (%)	41.6	42.3	42.9	43.9	47.8		
Depreciation and amortisation	21,680	27,380	28,710	29,100	30,150	3.6	39.1
EBIT	40,070	42,670	46,330	52,040	52,750	1.4	31.6
Interest	11,330	11,680	10,220	8,500	8,000	(5.9)	(29.4)
Other income	260	2,760	1,970	520	230		
PBT	29,000	33,750	38,080	44,060	44,980	2.1	55.1
Provision for tax	6,000	8,550	9,640	11,150	11,380	2.1	89.7
Effective tax rate (%)	20.7	25.3	25.3	25.3	25.3		
exceptions	(310)	-	-	-	-		
Net income (reported)	23,310	25,200	28,440	32,910	33,600	2.1	44.1

Source: Company data, I-Sec research

Table 2: Reliance Jio (standalone): ARPU dipped 8.5% QoQ on nil Interconnect revenues and lower number of days (two days lower)

	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	QoQ (%)	YoY (%)
Subscribers (mn)	388	398	406	411	426	3.7	10.0
Net adds (mn)	17.5	10.8	7.3	5.2	15.4		
Gross adds (mn)	24.0	15.1	27.2	25.1	31.2		
ARPU (Rs)	131	140	145	151	138	(8.5)	5.8
Inc. ARPU (Rs)	179	406	340	539	(367)	(168.1)	(305.1)
Churn (%)	0.6	0.4	1.7	1.6	1.3		
Minutes of Use (min/subs)	771	755	773	796	823	3.4	6.7
Minutes on Network (mn)	8,76,340	8,89,440	9,32,230	9,74,960	10,33,277	6.0	17.9
Data usage per sub (MB)	11,300	12,047	11,958	12,951	13,286	2.6	17.6
Data volume (mn MB)	1,28,40,000	1,42,00,000	1,44,20,000	1,58,60,000	1,66,80,000	5.2	29.9

Source: Company data, I-Sec research

Table 3: Reliance Jio (standalone): Comparable revenues grew just 1.7% QoQ, which was unimpressive

(Rs mn)	Q3FY21	Q4FY21	QoQ (%)	Remark
Revenue	1,84,920			
Less:				
Access charges (a)	15,490	1,790		
of which non-access IUC charges (b)	1,790	1,790		Q3 assumed same as Q4
IUC cost (c = a - b)	13,700	-		
Net IUC receiver (d)	500			Estimate
IUC revenue (e = c + d)	14,200			
Adj revenue	1,70,720	1,73,580	1.7	
Subs (mn)	411	426	3.7	
ARPU (based on adj revenue, Rs)	139	138	(0.8)	

Source: Company data, I-Sec research

Table 4: Reliance Jio (standalone): Balance sheet

(Rs mn)	FY20	FY21
Fixed assets	16,34,270	17,11,540
CWIP	2,12,580	1,69,810
Total fixed assets	18,46,850	18,81,350
Investments	11,110	11,180
Other non-current assets	2,74,660	3,84,010
Total non-current assets	21,32,620	22,76,540
Investments	13,810	4,200
Trade receivables	16,090	14,100
Cash & cash equivalents	74,800	5,890
Other current assets	1,79,730	2,00,160
Total Current Assets	2,84,430	2,24,350
Total Assets	24,17,050	25,00,890
Equity Share capital	4,50,000	4,50,000
Other Equity	12,59,560	13,79,730
Total Equity	17,09,560	18,29,730
Borrowings (incl spectrum debt)	1,88,390	1,92,010
Other financial liabilities	1,34,900	1,51,450
Provisions	-	25,260
Total Non-Current Liabilities	3,23,290	3,68,720
Borrowings	2,32,420	1,07,750
Trade payables	47,000	22,390
Other Current Liabilities	1,04,190	1,71,580
Provisions	590	720
Total Current Liabilities	3,84,200	3,02,440
Total Liabilities	24,17,050	25,00,890

Source: Company data, I-Sec research

Table 5: Reliance Jio (standalone): Cashflow statement

(Rs mn)	FY20	FY21
CFO (before tax)	2,14,350	3,08,190
% of EBITDA	99.4	99.7
Less:		
Tax	11,670	1,380
Lease liability	6,720	7,890
CFO	1,95,960	2,98,920
Change in working capital	(36,860)	19,230
CFO after wc	1,59,100	3,18,150
Capex	5,17,710	2,61,160
Cap- gross block	5,17,710	1,10,970
Spectrum		1,50,190
FCF	(3,58,610)	56,990
Less:		
Finance cost	1,03,480	23,450
Change in deferred payment	13,700	20
Other income	7,050	3,760
FCFE	(4,68,740)	37,280

Source: Company data, I-Sec research

Table 6: Reliance Jio (standalone): Capex intensity significantly dipped

(Rs mn)	FY20	FY21
Movement in fixed assets	1,60,770	34,500
D&A cost	73,960	1,15,340
Capex (capitalisation basis)	2,34,730	1,49,840
% of revenue	43.2	21.4
Cash capex (ex spectrum)	5,17,710	1,10,970
Inc/(dec) in capex creditors	(2,82,980)	38,870

Source: Company data, I-Sec research

Table 7: Reliance Jio (standalone): Net debt (including deferred spectrum liability) calculation

(Rs mn)	FY20	FY21
Borrowings (incl spectrum debt)	4,20,810	2,99,760
Less:		
Cash & equivalent	88,610	10,090
Net debt	3,32,200	2,89,670
Add:		
Spectrum bought in auction		5,71,230
Spectrum bought from Bharti		14,970
Less: Upfront payment		1,50,190
Net debt (incl spectrum debt)	3,32,200	7,25,680

Source: Company data, I-Sec research

Table 8: Jio Platforms Ltd (standalone): Revenues (digital) dipped 6.4% QoQ

(Rs mn)	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	QoQ (%)	YoY (%)
Net revenue	5,380	6,970	10,150	9,830	9,200	(6.4)	71.0
Total expenses	4,240	3,700	5,480	6,140	6,370	3.7	50.2
EBITDA	1,140	3,270	4,670	3,690	2,830	(23.3)	148.2
EBITDA (%)	21.2	46.9	46.0	37.5	30.8		
Depreciation	410	380	390	420	490	16.7	19.5
EBIT	730	2,890	4,280	3,270	2,340	(28.4)	220.5
EBIT (%)	13.6	41.5	42.2	33.3	25.4		
Finance cost	290	2,780	1,990	530	240	(54.7)	(17.2)
PBT	440	110	2,290	2,740	2,100	(23.4)	377.3
Tax	(350)	110	530	760	620	(18.4)	(277.1)
Tax (%)	(79.5)	100.0	23.1	27.7	29.5		
Net profit	480	-	1,760	1,980	1,480	(25.3)	208.3

Source: Company data, I-Sec research

Table 9: Jio Platforms Ltd (consolidated) financials

(Rs mn)	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	QoQ (%)	YoY (%)
Net revenue	1,53,730	1,72,540	1,84,960	1,94,750	1,82,780	(6.1)	18.9
Total expenses	90,840	99,220	1,05,250	1,09,920	97,050	(11.7)	6.8
EBITDA	62,890	73,320	79,710	84,830	85,730	1.1	36.3
EBITDA (%)	40.9	42.5	43.1	43.6	46.9		
Depreciation	22,090	27,760	29,100	29,520	30,640	3.8	38.7
EBIT	40,800	45,560	50,610	55,310	55,090	(0.4)	35.0
EBIT (%)	26.5	26.4	27.4	28.4	30.1		
Finance cost	11,360	11,700	10,240	8,510	8,010	(5.9)	(29.5)
PBT	29,440	33,860	40,370	46,800	47,080	0.6	59.9
Tax	5,650	8,660	10,170	11,910	12,000	0.8	112.4
Tax (%)	19.2	25.6	25.2	25.4	25.5		
Net profit	23,790	25,200	30,200	34,890	35,080	0.5	47.5

Source: Company data, I-Sec research

Table 10: Reliance Jio (standalone) financials

<i>(Rs mn)</i>	FY18	FY19	FY20	FY21E	FY22E	FY23E
Revenue	2,01,545	3,88,381	5,43,160	6,98,880	8,24,227	9,43,023
Network operation cost	49,210	1,13,379	1,69,300	2,20,580	2,62,205	3,00,024
<i>% of revenue</i>	<i>24.4</i>	<i>29.2</i>	<i>31.2</i>	<i>31.6</i>	<i>31.8</i>	<i>31.8</i>
Access charges	42,870	42,070	57,959	46,310	8,787	9,140
<i>% of revenue</i>	<i>21.3</i>	<i>10.8</i>	<i>10.7</i>	<i>6.6</i>	<i>1.1</i>	<i>1.0</i>
License fees and spect charges	17,670	41,592	57,200	77,550	96,905	1,10,981
<i>% of revenue</i>	<i>8.8</i>	<i>10.7</i>	<i>10.5</i>	<i>11.1</i>	<i>11.8</i>	<i>11.8</i>
Employee cost	9,630	16,577	14,630	13,370	14,172	14,881
<i>% of revenue</i>	<i>4.8</i>	<i>4.3</i>	<i>2.7</i>	<i>1.9</i>	<i>1.7</i>	<i>1.6</i>
SGA and other exp	14,850	23,803	28,410	31,940	37,075	39,765
<i>% of revenue</i>	<i>7.4</i>	<i>6.1</i>	<i>5.2</i>	<i>4.6</i>	<i>4.5</i>	<i>4.2</i>
EBITDA	67,315	1,50,960	2,15,661	3,09,130	4,05,082	4,68,234
<i>EBITDA margin (%)</i>	<i>33.4</i>	<i>38.9</i>	<i>39.7</i>	<i>44.2</i>	<i>49.1</i>	<i>49.7</i>
Depreciation and amortisation	35,770	63,984	73,960	1,15,340	1,68,488	1,96,838
EBIT	31,545	86,976	1,41,701	1,93,790	2,36,595	2,71,396
Interest	20,490	41,486	66,170	38,400	50,343	49,573
Other income	40	64	870	5,480	-	-
PBT	11,095	45,555	76,401	1,60,870	1,86,251	2,21,823
Provision for tax	3,860	15,916	19,330	40,720	47,145	56,149
<i>Effective tax rate (%)</i>	<i>34.8</i>	<i>34.9</i>	<i>25.3</i>	<i>25.3</i>	<i>25.3</i>	<i>25.3</i>
Net income (reported)	7,235	29,639	55,611	1,20,150	1,39,107	1,65,674

Source: Company data, I-Sec research

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