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India | Equity Research | Sector Update

Telecom

RJio's revenue growth slows; 5G capex ahead of schedule

Reliance Jio Infocomm's (RJio) revenue grew 9.9% YoY, helped by rise in mobile subs base, faster growth in FTTH and higher enterprise (incl. ILD) revenue. EBITDA was up 14.7% YoY, aided by lower SUC (which added to EBITDA growth by 4.2% YoY). RJio remains confident of driving higher revenue growth led by: 1) adoption of 5G services, hence higher data usage; 2) FTTH subs growth boosted by JioFiber Backup plan; and 3) continued growth in enterprise business. However, we see near-term challenges to EPS growth with rise in costs due to higher network charges, rise in D&A on capitalising 5G spectrum and network investment, and higher interest cost (on 5G capitalisation). RJio said it has completed 65% of its planned 5G rollout with 115k sites, which implies significantly lower 5G deployment vs 4G. We have reduced our EBITDA estimates by ~1.5-3% for FY24E/FY25E.

RJio revenue up 9.9% YoY to INR 240bn in Q1FY24

This was driven by subs growth of 6.8% YoY (net add: 9.2mn) to 449mn, and ARPU growth of 2.7% YoY to INR 181. Company benefited from: **1)** strong growth in FTTH subs base (est. 50% YoY to 9mn), which has higher ARPU vs mobile subs; **2)** higher mix of ILD revenue, which is indicated by 25% rise in access charges; and **3)** stronger growth in enterprise business, which includes connectivity solutions (including SD WAN, cloud, IOT, etc). We anticipate ARPU growth to be higher in FY24E and FY25E aided by tariff hikes, which we believe is not completely baked into our estimates.

Churn rate has slightly dipped to 1.8% (vs 2% in Q4FY23) and gross adds were somewhat lower at 33.2mn (vs 35.2mn in Q1FY23) due to reduced on-ground competitive intensity. Minutes grew 7.2% YoY to 1,340-bn, and data usage was up 28.2% YoY to 33,200-bn MB. Data usage growth was also aided by fast growth of FTTH subs who use higher data quantity. Also, free IPL available on JioCinema has helped.

EBITDA grew 14.7% YoY to INR 126bn

Network costs rose 7.8% YoY to INR 74bn and may rise further over the next two years due to: **1)** commercial launch of 5G services, which is seeing rapid rollout; and **2)** increased rollout of JioFiber will help charge more rental cost add to P&L. SG&A expenses grew 23.5% YoY to INR 11bn. Employee costs increased 19.8% YoY to INR 4.4bn. License fees and SUC dipped 13% YoY to INR 22bn as RJio benefited from lower-weightage SUC charge (as % of AGR) on purchase of 5G spectrum. D&A rose 22% YoY to INR 52bn, partially on deployment of spectrum bought in Mar'21, higher lease liability recognition and higher data utilisation. Interest cost dipped 2.6% YoY to INR 9.7bn as interest on 5G spectrum is not charged to P&L. Net profit grew 12.2% YoY to INR 48.6bn.

Jio Platforms' revenue rose 31% YoY

Revenue of Jio Platforms (standalone, which houses most digital properties of the company) grew 31% YoY to INR 20bn in Q1FY24 due to technology support to JioCinema for broadcasting IPL. EBITDA jumped 20% YoY to INR 4.5bn. Net profit rose 20.5% YoY to INR 2.4bn due to lower effective tax rate at 27.9% (vs 29.6% in Q1FY23).

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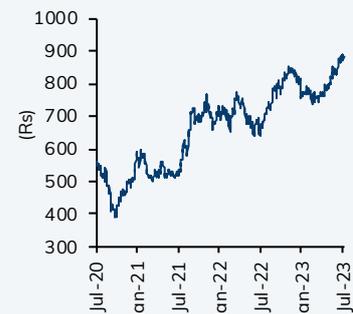
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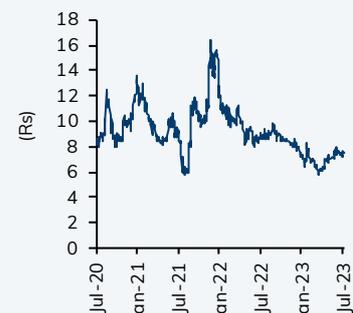
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Other highlights

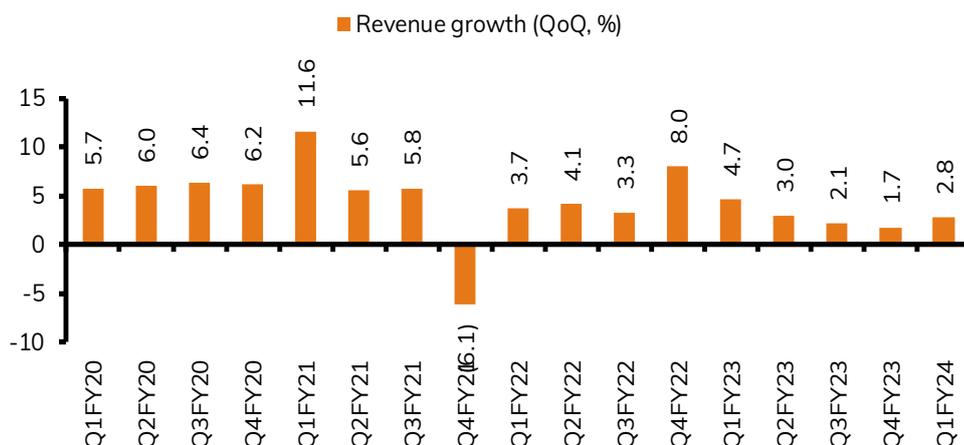
- 1) Rjio's 5G rollout plan is ahead of schedule with deployment of 115k 5G sites with 690k cells (6 cells / site with 3 cells / site each for 700MHz and 3500MHz band). This implies that the company has rolled out ~65% of its planned 5G deployment (total planned sites is ~175k vs 4G sites of >300k). Rjio's 5G coverage is now >90% in towns;
- 2) 98% of the new sub adds are coming on the postpaid plans; and
- 3) for FTTH, LCO partnership programme is live in >1,000 cities.

Exhibit 1: Reliance Jio (standalone) financials

INR mn	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	QoQ (%)	YoY (%)
Revenue	2,18,730	2,25,210	2,29,980	2,33,940	2,40,420	2.8	9.9
Network operation cost	68,420	71,810	72,270	72,240	73,790	2.1	7.8
% of revenue	31.3	31.9	31.4	30.9	30.7		
Access charges	2,570	1,890	2,200	2,820	3,210	13.8	24.9
% of revenue	1.2	0.8	1.0	1.2	1.3		
License fees and spect charges	25,360	23,210	21,200	21,550	22,040	2.3	(13.1)
% of revenue	11.6	10.3	9.2	9.2	9.2		
Employee cost	3,690	4,280	4,000	4,370	4,420	1.1	19.8
% of revenue	1.7	1.9	1.7	1.9	1.8		
SGA and other exp	9,050	9,130	10,220	10,860	11,180	2.9	23.5
% of revenue	4.1	4.1	4.4	4.6	4.7		
EBITDA	1,09,640	1,14,890	1,20,090	1,22,100	1,25,780	3.0	14.7
EBITDA margin (%)	50.1	51.0	52.2	52.2	52.3		
Depreciation and amortisation	42,310	45,230	48,100	49,820	51,590	3.6	21.9
EBIT	67,330	69,660	71,990	72,280	74,190	2.6	10.2
Interest	9,970	10,160	10,400	10,060	9,710	(3.5)	(2.6)
Other income	820	1,120	630	1,050	850		
PBT	58,180	60,620	62,220	63,270	65,330	3.3	12.3
Provision for tax	14,830	15,440	15,840	16,110	16,700	3.7	12.6
Effective tax rate (%)	25.5	25.5	25.5	25.5	25.6		
Exceptional	-	-	-	-	-		
Net income (reported)	43,350	45,180	46,380	47,160	48,630	3.1	12.2

Source: I-Sec research, Company data

Exhibit 2: Rjio's sequential revenue growth



Source: I-Sec research, Company data

Exhibit 3: ARPU growth was supported by faster growth in FTTH and enterprise business

	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	QoQ (%)	YoY (%)
Subscribers (mn)	420	428	433	439	449	2.1	6.8
Net adds (mn)	9.7	7.7	5.3	6.4	9.2		
Gross adds (mn)	35.2	32.7	34.2	32.6	33.2		
ARPU (INR)	176	177	178	179	181	1.0	2.7
Churn (%)	2.0	2.0	2.2	2.0	1.8		
Minutes of Use (min/subs)	1,004	968	984	1,001	1,006	0.5	0.2
Minutes on Network (mn)	12,50,000	12,30,000	12,70,000	13,10,000	13,40,000	2.3	7.2
Data usage per sub (MB)	20,801	22,183	22,468	23,160	24,931	7.6	19.9
Data volume (mn MB)	2,59,00,000	2,82,00,000	2,90,00,000	3,03,00,000	3,32,00,000	9.6	28.2

Source: I-Sec research, Company data

Exhibit 4: Jio Platforms (consolidated) financials

INR mn	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	QoQ (%)	YoY (%)
Net revenue	2,34,670	2,42,750	2,48,920	2,54,650	2,61,150	2.6	11.3
Total expenses	1,20,430	1,22,640	1,23,730	1,26,980	1,29,990	2.4	7.9
EBITDA	1,14,240	1,20,110	1,25,190	1,27,670	1,31,160	2.7	14.8
EBITDA (%)	48.7	49.5	50.3	50.1	50.2		
Depreciation	43,290	46,250	49,170	50,930	52,750	3.6	21.9
EBIT	70,950	73,860	76,020	76,740	78,410	2.2	10.5
EBIT (%)	30.2	30.4	30.5	30.1	30.0		
Finance cost	10,000	10,210	10,470	10,140	9,820	(3.2)	(1.8)
PBT	60,950	63,650	65,550	66,600	68,590	3.0	12.5
Tax	15,650	16,360	16,740	16,760	17,610	5.1	12.5
Tax (%)	25.7	25.7	25.5	25.2	25.7		
Net profit	45,300	47,290	48,810	49,840	50,980	2.3	12.5

Source: I-Sec research, Company data

Exhibit 5: Jio Platforms (standalone): Revenue grew 32% YoY

INR mn	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	QoQ (%)	YoY (%)
Net revenue	15,120	16,420	18,310	19,660	19,880	1.1	31.5
Total expenses	11,340	12,320	13,840	15,140	15,350	1.4	35.4
EBITDA	3,780	4,100	4,470	4,520	4,530	0.2	19.8
EBITDA (%)	25.0	25.0	24.4	23.0	22.8		
Depreciation	980	1,020	1,070	1,110	1,160	4.5	18.4
EBIT	2,800	3,080	3,400	3,410	3,370	(1.2)	20.4
EBIT (%)	18.5	18.8	18.6	17.3	17.0		
Finance cost	30	50	70	80	110	37.5	266.7
PBT	2,770	3,030	3,330	3,330	3,260	(2.1)	17.7
Tax	820	920	900	650	910	40.0	11.0
Tax (%)	29.6	30.4	27.0	19.5	27.9		
Net profit	1,950	2,110	2,430	2,680	2,350	(12.3)	20.5

Source: I-Sec research, Company data

Exhibit 6: Reliance Jio (standalone) financials

INR mn	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Revenue	3,88,381	5,43,160	6,98,880	7,69,770	9,07,860	10,14,533	11,71,890
Network operation cost	1,13,379	1,69,300	2,20,580	2,50,130	2,84,740	3,12,075	3,51,633
% of revenue	29.2	31.2	31.6	32.5	31.4	30.8	30.0
Access charges	42,070	57,959	46,310	8,060	9,480	12,976	13,694
% of revenue	10.8	10.7	6.6	1.0	1.0	1.3	1.2
License fees and spect charges	41,592	57,200	77,550	90,740	91,320	92,794	1,07,306
% of revenue	10.7	10.5	11.1	11.8	10.1	9.1	9.2
Employee cost	16,577	14,630	13,370	14,220	16,340	18,301	19,399
% of revenue	4.3	2.7	1.9	1.8	1.8	1.8	1.7
SGA and other exp	23,803	28,410	31,940	30,320	39,260	46,516	51,913
% of revenue	6.1	5.2	4.6	3.9	4.3	4.6	4.4
EBITDA	1,50,960	2,15,661	3,09,130	3,76,300	4,66,720	5,31,872	6,27,944
EBITDA margin (%)	38.9	39.7	44.2	48.9	51.4	52.4	53.6
Depreciation and amortisation	63,984	73,960	1,15,340	1,36,150	1,85,460	2,33,043	2,50,850
EBIT	86,976	1,41,701	1,93,790	2,40,150	2,81,260	2,98,829	3,77,094
Interest	41,486	66,170	38,400	43,770	40,590	84,004	1,12,658
Other income	64	870	5,480	2,270	3,620	3,982	4,380
PBT	45,555	76,401	1,60,870	1,98,650	2,44,290	2,18,807	2,68,816
Provision for tax	15,916	19,330	40,720	50,480	62,220	55,729	68,467
Effective tax rate (%)	34.9	25.3	25.3	25.4	25.5	25.5	25.5
Net income (reported)	29,639	55,611	1,20,150	1,48,170	1,82,070	1,63,077	2,00,350

Source: I-Sec research, Company data

Exhibit 7: Earnings revision

INR mn	Revised		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
KPIs						
Subs (mn)	468	490	463	488	1.1	0.4
ARPU (INR)	186	204	192	209	(3.2)	(2.3)
Financial						
Revenue	10,14,533	11,71,890	10,41,866	11,90,683	(2.6)	(1.6)
EBITDA	5,31,872	6,27,944	5,49,349	6,36,747	(3.2)	(1.4)
EBITDA (%)	52.4	53.6	52.7	53.5		
PAT	1,63,077	2,00,350	1,72,433	2,03,305	(5.4)	(1.5)

Source: I-Sec research, Company data

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