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India | Equity Research | Sector Update

Telecom

RJio's net debt continues to rise on higher capex investment and cash finance cost

Reliance Jio Infocomm (RJio)'s revenue grew 11% YoY, helped by rise in mobile subscriber (subs) base, faster growth in FTTH and rise in enterprise business. However, it appears that mobile revenue has grown slower due to the unlimited free 5G data offer. In FY24, RJio's FCF (after finance cost) generation remain in negative territory, at INR 108bn. The aggressive 5G rollout saw completion within stipulated timelines; we expect capex intensity to slow sharply in FY25. We would track FCF generation closely for value creation. We tweak our EBITDA estimates by 1–2% for FY25E/FY26E. Key factors to watch – growth in FWA subs, mobility 5G commercialisation and impact on ARPU and FCF generation.

RJio's revenue grew 11% YoY to INR 260bn in Q4FY24

Company's Q4FY24 revenue growth was driven by subs growing 9.7% YoY (net add: 10.9mn) to 482mn, and ARPU growing 1.6% YoY to INR 182. ARPU has benefited from: 1) strong growth in FTTH subs base, which has higher ARPU versus mobile subs; and 2) growth in enterprise business. However, ARPU was flat QoQ, which implies that underlying mobile ARPU has probably slipped owing to the unlimited 5G data offer – possibly impacting data recharges and some downgrades too; and one less day. RJio 5G subs crossed 108mn (net add: 18mn) who can access free data on 5G network.

Churn rate was low at 1.5% (vs. 1.7% in Q3FY24) and gross adds were slightly lower at 32.3mn (vs. 34.9mn in Q3FY24). Minutes grew 9.9% YoY to 1,440bn, and data usage was up 35% YoY to 40,900bn MB, of which 28% of data is generated on 5G network. Data usage growth was aided by FTTH subs that use higher data quantity, with their number growing swiftly for RJio; and unlimited free data on 5G. JioAirFiber is now being rolled out in 5,900 cities and towns; and the company has seen acceleration in adoption.

EBITDA grew 11.5% YoY to INR 136bn

Network costs rose 8.9% YoY to INR 79bn and the cost may continue to rise driven by: 1) commercial launch of 5G services (including JioAirFiber), which has seen completion of phase-1 rollout; and 2) increased rollout of JioFiber that will help charge more fiber rental cost to P&L. SG&A expenses grew 28.5% YoY to INR 14bn. Employee costs rose 10.5% YoY to INR 5bn. Access charges have declined 24.5% YoY to INR 2bn. RJio has seen higher inflation across cost items, which has restricted EBITDA margin expansion. In Q4FY24, EBITDA margin stood at 52.4% (up 10bp QoQ). D&A rose 11.7% YoY to INR 56bn – likely to continue growing as RJio commercialises spectrum under CWIP/5G commercial launch. Interest cost was stable YoY, at INR 10bn, as interest on 5G spectrum was not charged to P&L. Net profit grew 13.2% YoY to INR 53bn.

Jio Platforms' revenue rose 42% YoY

Revenue of Jio Platforms (standalone, which houses most digital properties) revenue grew 42% YoY to INR 28bn in Q4FY24, while EBITDA jumped 38.5% YoY to INR 6.3bn. Net profit dipped 8.2% YoY to INR 2.5bn – it was restricted from 2.2x YoY rise in depreciation to INR 2.5bn; and higher ETR of 33%.

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EBITDA up 12.3% YoY in FY24

In FY24, Rjio added 42.5mn subs bringing the total subs to 482mn, while ARPU improved 1.7% YoY to INR 181. Revenue grew 10.3% YoY. Lease liability costs rose to INR 37bn (from INR 41bn in FY23); thus, adjusted EBITDA increased 14.5% YoY. Network operating costs were up 7.3% YoY to INR 306bn, and we believe InvIT cost (particularly fibre) is still being partially capitalised. Net profit grew 12.4% YoY to INR 205bn. With the 5G commercial launch still pending, D&A rose slower, at 15.4% to INR 214bn; while finance cost dipped 1.5% to INR 40bn (cash outflow for finance cost was INR 134bn).

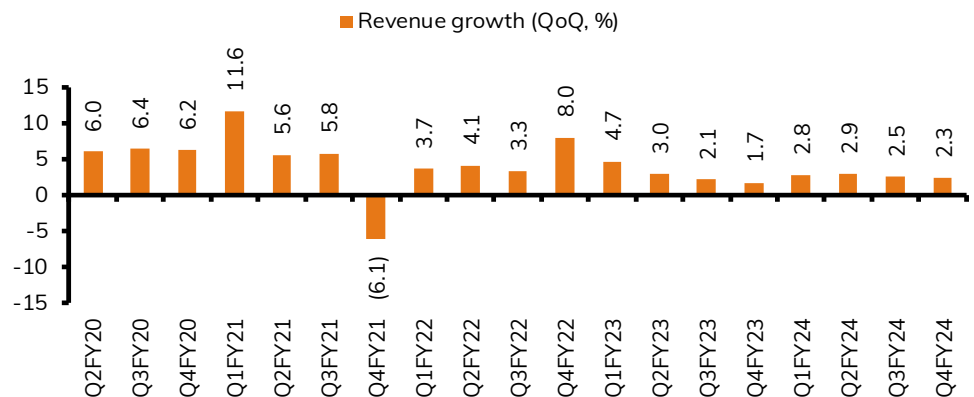
Observations from balance sheet and cash flow

- Intangible asset (spectrum) CWIP was INR 1,300bn, which means no new spectrum was put to use in FY24 therefore keeping amortisation cost stable. Amortisation will rise as the company deploys more spectrum with the commercial launch of 5G, probably in FY25E.
- Tangible CWIP increase of INR 344bn to INR 779bn is large, owing to the 5G capex which is yet to be put to use. Capex stood at INR 490bn in FY24. The company has paid deferred spectrum payment was INR 44bn.
- FY24 gross debt (including deferred spectrum liability) was INR 1,656bn, up INR 126bn. It excludes the INR 31bn dip to INR 318bn in other financial liabilities such as capex creditors and interest accrued but not paid. Capex creditor was INR 242bn in FY23; it should have dipped in FY24. Net debt was INR 1,616bn in FY24.
- Lease liability repayment slipped to INR 37bn in FY24 from INR 41bn.
- Rjio paid cash tax of only INR 1bn in FY24 (cash tax rate of just 0.4%).
- Interest cost on cash flow was INR 136bn. The higher cash finance cost is due to expiry of moratorium for spectrum bought in FY21, and full-year impact of 5G spectrum bought in FY23. Reported finance cost was only INR 40bn due to higher intangible CWIP.

Exhibit 1: Reliance Jio (standalone) financials

INR mn	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	QoQ (%)	YoY (%)
Revenue	2,33,940	2,40,420	2,47,500	2,53,680	2,59,590	2.3	11.0
Network operation cost	72,240	73,790	76,070	77,060	78,660	2.1	8.9
% of revenue	30.9	30.7	30.7	30.4	30.3		
Access charges	2,820	3,210	2,990	3,020	2,130	(29.5)	(24.5)
% of revenue	1.2	1.3	1.2	1.2	0.8		
License fees and spect charges	21,550	22,040	22,900	23,300	23,890	2.5	10.9
% of revenue	9.2	9.2	9.3	9.2	9.2		
Employee cost	4,370	4,420	4,680	5,030	4,830	(4.0)	10.5
% of revenue	1.9	1.8	1.9	2.0	1.9		
SGA and other exp	10,860	11,180	11,330	12,500	13,960	11.7	28.5
% of revenue	4.6	4.7	4.6	4.9	5.4		
EBITDA	1,22,100	1,25,780	1,29,530	1,32,770	1,36,120	2.5	11.5
EBITDA margin (%)	52.2	52.3	52.3	52.3	52.4		
Depreciation and amortisation	49,820	51,590	52,580	54,110	55,660	2.9	11.7
EBIT	72,280	74,190	76,950	78,660	80,460	2.3	11.3
Interest	10,060	9,710	10,080	10,160	10,040	(1.2)	(0.2)
Other income	1,050	850	1,060	1,450	1,220		
PBT	63,270	65,330	67,930	69,950	71,640	2.4	13.2
Provision for tax	16,110	16,700	17,350	17,870	18,270	2.2	13.4
Effective tax rate (%)	25.5	25.6	25.5	25.5	25.5		
Exceptional	-	-	-	-	-		
Net income (reported)	47,160	48,630	50,580	52,080	53,370	2.5	13.2

Source: I-Sec research, Company data

Exhibit 2: Revenue growth

Source: I-Sec research, Company data

Exhibit 3: ARPU grew 1.6% YoY

	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	QoQ (%)	YoY (%)
Subscribers (mn)	439	449	460	471	482	2.3	9.7
Net adds (mn)	6.4	9.2	11.2	11.2	10.9		
Gross adds (mn)	32.6	33.2	34.4	34.9	32.3		
ARPU (INR)	179	181	182	182	182	-	1.6
Churn (%)	2.0	1.8	1.7	1.7	1.5		
Minutes of Use (min/subs)	1,001	1,006	976	981	1,008	2.7	0.6
Minutes on Network (mn)	13,10,000	13,40,000	13,30,000	13,70,000	14,40,000	5.1	9.9
Data usage per sub (MB)	23,160	24,931	26,646	27,294	28,620	4.9	23.6
Data volume (mn MB)	3,03,00,000	3,32,00,000	3,63,00,000	3,81,00,000	4,09,00,000	7.3	35.0

Source: I-Sec research, Company data

Exhibit 4: Jio Platforms (consolidated) financials

INR mn	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	QoQ (%)	YoY (%)
Net revenue	2,54,650	2,61,150	2,68,750	2,76,970	2,88,710	4.2	13.4
Total expenses	1,26,980	1,29,990	1,33,470	1,37,420	1,45,110	5.6	14.3
EBITDA	1,27,670	1,31,160	1,35,280	1,39,550	1,43,600	2.9	12.5
EBITDA (%)	50.1	50.2	50.3	50.4	49.7		
Depreciation	50,930	52,750	54,150	56,020	58,110	3.7	14.1
EBIT	76,740	78,410	81,130	83,530	85,490	2.3	11.4
EBIT (%)	30.1	30.0	30.2	30.2	29.6		
Finance cost	10,140	9,820	10,200	10,280	10,180	(1.0)	0.4
PBT	66,600	68,590	70,930	73,250	75,310	2.8	13.1
Tax	16,760	17,610	17,960	18,800	19,480	3.6	16.2
Tax (%)	25.2	25.7	25.3	25.7	25.9		
Net profit	49,840	50,980	52,970	54,450	55,830	2.5	12.0

Source: I-Sec research, Company data

Exhibit 5: Jio Platforms (standalone) – revenue grew 41.9% YoY

INR mn	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	QoQ (%)	YoY (%)
Net revenue	19,660	19,880	20,190	21,840	27,900	27.7	41.9
Total expenses	15,140	15,350	15,500	16,510	21,640	31.1	42.9
EBITDA	4,520	4,530	4,690	5,330	6,260	17.4	38.5
EBITDA (%)	23.0	22.8	23.2	24.4	22.4		
Depreciation	1,110	1,160	1,570	1,910	2,450	28.3	120.7
EBIT	3,410	3,370	3,120	3,420	3,810	11.4	11.7
EBIT (%)	17.3	17.0	15.5	15.7	13.7		
Finance cost	80	110	120	120	140	16.7	75.0
PBT	3,330	3,260	3,000	3,300	3,670	11.2	10.2
Tax	650	910	610	930	1,210	30.1	86.2
Tax (%)	19.5	27.9	20.3	28.2	33.0		
Net profit	2,680	2,350	2,390	2,370	2,460	3.8	(8.2)

Source: I-Sec research, Company data

Exhibit 6: Reliance Jio (standalone) financials

INR mn	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Revenue	5,43,160	6,98,880	7,69,770	9,07,860	10,01,190	11,93,861	13,35,679
Network operation cost	1,69,300	2,20,580	2,50,130	2,84,740	3,05,580	3,43,678	3,74,410
% of revenue	31.2	31.6	32.5	31.4	30.5	28.8	28.0
Access charges	57,959	46,310	8,060	9,480	11,350	12,171	12,765
% of revenue	10.7	6.6	1.0	1.0	1.1	1.0	1.0
License fees and spect charges	57,200	77,550	90,740	91,320	92,130	1,09,987	1,23,131
% of revenue	10.5	11.1	11.8	10.1	9.2	9.2	9.2
Employee cost	14,630	13,370	14,220	16,340	18,960	20,098	21,705
% of revenue	2.7	1.9	1.8	1.8	1.9	1.7	1.6
SGA and other exp	28,410	31,940	30,320	39,260	48,970	55,691	63,971
% of revenue	5.2	4.6	3.9	4.3	4.9	4.7	4.8
EBITDA	2,15,661	3,09,130	3,76,300	4,66,720	5,24,200	6,52,237	7,39,698
EBITDA margin (%)	39.7	44.2	48.9	51.4	52.4	54.6	55.4
Depreciation and amortisation	73,960	1,15,340	1,36,150	1,85,460	2,13,940	2,67,491	3,03,409
EBIT	1,41,701	1,93,790	2,40,150	2,81,260	3,10,260	3,84,746	4,36,289
Interest	66,170	38,400	43,770	40,590	39,990	1,20,550	1,33,367
Other income	870	5,480	2,270	3,620	4,580	4,122	4,534
PBT	76,401	1,60,870	1,98,650	2,44,290	2,74,850	2,68,318	3,07,457
Provision for tax	19,330	40,720	50,480	62,220	70,190	68,522	78,517
Effective tax rate (%)	25.3	25.3	25.4	25.5	25.5	25.5	25.5
Net income (reported)	55,611	1,20,150	1,48,170	1,82,070	2,04,660	1,99,796	2,28,940

Source: I-Sec research, Company data

Exhibit 7: Reliance Jio (standalone) – balance sheet

INR mn	FY19	FY20	FY21	FY22	FY23	FY24
Fixed assets	13,40,000	16,34,270	17,11,540	21,65,450	22,52,030	22,02,740
CWIP	3,46,080	2,12,580	1,69,810	4,78,530	16,59,910	20,79,130
Total fixed assets	16,86,080	18,46,850	18,81,350	26,43,980	39,11,940	42,81,870
Investments	11,100	11,110	11,180	11,400	11,160	11,180
Other non-current assets	1,25,380	2,74,660	3,84,010	2,39,640	2,37,420	2,50,090
Total non-current assets	18,22,560	21,32,620	22,76,540	28,95,020	41,60,520	45,43,140
Investments	1,550	13,810	4,200	5,550	5,900	25,230
Trade receivables	7,350	16,090	14,100	43,170	24,180	15,490
Cash & cash equivalents	4,290	74,800	5,890	6,120	8,550	13,640
Other current assets	1,22,050	1,79,730	2,00,160	2,35,030	2,58,570	2,76,550
Total Current Assets	1,35,240	2,84,430	2,24,350	2,89,870	2,97,200	3,30,910
Total Assets	19,57,800	24,17,050	25,00,890	31,84,890	44,57,720	48,74,050
Equity Share capital	4,50,000	4,50,000	4,50,000	4,50,000	4,50,000	4,50,000
Other Equity	(46,000)	12,59,560	13,79,730	15,27,900	17,09,970	19,13,690
Total Equity	4,04,000	17,09,560	18,29,730	19,77,900	21,59,970	23,63,690
Borrowings (incl spectrum debt)	8,44,520	1,88,390	1,92,010	5,33,460	13,55,760	15,06,430
Other financial liabilities	99,980	1,34,900	1,51,450	1,42,760	1,57,460	1,46,130
Provisions	-	-	25,260	75,740	1,37,960	2,07,840
Total Non-Current Liabilities	9,44,500	3,23,290	3,68,720	7,51,960	16,51,180	18,60,400
Borrowings	49,710	2,32,420	1,07,750	2,63,240	1,73,690	1,49,410
Trade payables	32,560	47,000	22,390	20,200	33,530	43,360
Other Current Liabilities	5,25,980	1,04,190	1,71,580	1,70,810	4,38,570	4,56,330
Provisions	1,050	590	720	780	780	860
Total Current Liabilities	6,09,300	3,84,200	3,02,440	4,55,030	6,46,570	6,49,960
Total Liabilities	19,57,800	24,17,050	25,00,890	31,84,890	44,57,720	48,74,050

Source: I-Sec research, Company data

Exhibit 8: Reliance Jio (standalone) – cash flow

INR mn	FY19	FY20	FY21	FY22	FY23	FY24
CFO	1,51,120	2,14,350	3,08,190	3,78,380	4,69,180	5,24,490
% of EBITDA	100.1	99.4	99.7	100.6	100.5	100.1
Less:						
Tax	9,680	11,670	1,380	1,090	(13,440)	1,050
Lease liability	-	6,720	7,890	14,580	40,670	36,570
CFO	1,41,440	1,95,960	2,98,920	3,62,710	4,41,950	4,86,870
Change in working capital	(74,860)	(36,860)	19,230	(64,420)	(1,840)	29,970
CFO after wc	66,580	1,59,100	3,18,150	2,98,290	4,40,110	5,16,840
Cash Capex	4,38,450	5,17,710	2,61,160	2,88,070	3,35,750	4,90,160
Cal- gross block		2,34,730	1,49,840	3,12,553	5,73,951	5,83,870
Spectrum			1,50,190	31,544	78,648	44,230
FCF	(3,71,870)	(3,58,610)	56,990	10,220	1,04,360	26,680
Less:						
Finance cost	91,650	1,03,480	23,450	14,610	38,430	1,35,730
Change in deferred payment	8,700	13,700	20	-	-	-
Other income	(3,630)	7,050	3,760	60	60	840
FCFE	(4,75,850)	(4,68,740)	37,280	(4,330)	65,990	(1,08,210)

Source: I-Sec research, Company data

Exhibit 9: Earnings revision

INR mn	Revised		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
KPIs						
Subs (mn)	506	530	502	526	0.8	0.7
ARPU (INR)	201	215	203	216	(0.7)	(0.3)
Financial						
Revenue	11,93,861	13,35,679	11,96,312	13,29,645	(0.2)	0.5
EBITDA	6,52,237	7,39,698	6,47,730	7,26,752	0.7	1.8
EBITDA (%)	54.6	55.4	54.1	54.7		
PAT	1,99,796	2,28,940	2,04,029	2,27,430	(2.1)	0.7

Source: I-Sec research, Company data

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