

Reduction in user base, spectrum expense hurt; launch of JioPhone Next seen to be a positive

Subdued Q2 Show Makes Tariff Hike Difficult for Jio

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Kolkata: Odds are lengthening on the likelihood of near-term tariff increases at Reliance Jio after a steeper-than-expected decline in its customer base in the September quarter, although higher revenues per user and launch of a potentially game-changing affordable smartphone during Diwali should protect downside risks at India's biggest telco.

US brokerage Jefferies, which snipped the telco's valuations by 2% to \$88 billion, said Jio's 2Q results were "operationally weak," and the moderation in valuations was due to "lower-than-expected revenues and higher-than-expected interest costs." It went on to add that "a repeat of its 2Q subscriber performance in 3Q might dash hopes of a tariff hike in the near/medium term."

Jio's profit growth in the September quarter was flattish sequentially, due mainly to a 32% jump in finance costs linked to spectrum purchases in the March 2021 auction besides subscriber losses of more than 11 million, analysts said.

To be sure, despite customer losses, Jio is still the market leader with 429.5 million users as of the quarter ended September, compared with Airtel and Vi's 321.23 million and 255.4 million, respectively, reported in the June quarter. Airtel and Vi are yet to report second-quarter earnings.

The upcoming budget-range JioPhone Next "seems to contain all necessary functionalities of a smartphone, including customised OS; availability of all apps within Google play store; multi-language support and robust hardware specifications, which should bode well for the attractiveness of the phone," JM Financial said. "With its launch (around Diwali), the RIL management expects to re-engage some of Jio's subscribers in the lower pyramid, and bring them back into the Jio network."

JIOPHONE LAUNCH

Jio is set to launch JioPhone Next—its budget 4G smartphone developed with Google—around Diwali to attract more customers. It had deferred the device's original September launch timeline due to the continuing global chip shortage.

Meanwhile, a combination of sharply higher data consumption

Different Strokes

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and removal of low-paying customers boosted Jio's average revenue per user (ARPU) in the July-September period.

Jio's ARPU – a key performance metric for the telecom business – grew 3.7% on-quarter to around Rs 144 in the fiscal second quarter.

Wall Street financial powerhouse JP Morgan said "Jio's Q2 ARPU, which stood at ₹144, was +4% q/q and in line with its expectations of an increase". Jio lost mobile users for the first time since it started operations more than five years ago as many could not recharge due to financial difficulties in the aftermath of the second wave.

JM Financial said that while Reliance Industries – Jio's parent – attributed the high churn to subscriber losses during the second Covid wave, "a part of it could have been also due to the impact of JioPhone users moving out after their three-year lock-in."

Operationally, the quarter was weak, said Jefferies. "Revenues, Ebitda, and profits - all (missed) estimates, and the 20% on-year fall in 1HFY22 CFO (operating cash flows), 1H cash burn, and low incremental Ebitda margins of 50% disappointed further," Jefferies said. Such a scenario, it added, could be "negative for the industry" as Jio might not be willing to participate in a tariff increase.

UNDER STRESS

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