

Jio May Hike Prices to Meet ₹9,000cr Annual Spend on Capacity Lease Deals

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Kolkata: Reliance Jio Infocomm may be pushed to raise prices in this financial year as it needs to spend about ₹9,000 crore a year on its long-term capacity leasing deals with special purpose vehicles (SPVs) created to hold its demerged fibre and towers assets, coupled with the capital raising plans of rivals Vodafone Idea (VIL) and Bharti Airtel, said analysts.

“The likelihood of Jio raising prices is higher today than it was six to nine months ago, which has positive implications for incumbent peers, particularly, Vodafone Idea,” JP Morgan said in a note to clients seen by ET. The US broke

Analysts feel Voda Idea, Airtel’s capital raising plans may prompt Jio to rethink its pricing stance

rage said investors increasingly believe Vodafone Idea and Airtel’s capital raising plans, signalling their capacity to fight, may prompt Jio to rethink its pricing stance, especially on whether it can afford to keep expanding its balance sheet investments for the next two-three years.

VIL and Airtel plan to raise about ₹25,000 crore each through rights issues to boost their countrywide 4G push to effectively battle Jio.

Jio’s management, however, reiterated at its post-results analyst call last week that the telecom operator would not tweak tariffs and would continue to focus on gaining subscriber market share.

The company’s pricing aggression since its entry in September 2016 forced incumbents to match rates to retain customers, galvanising consumption of voice and data services. Users gained but India’s older carriers got hurt. But headline prices — albeit low — have been stable for more than 16 months now, indicating signs of stability, especially with the market having been reduced to three private players.

Analysts said Jio’s tower and fibre SPVs, managed by infrastructure investment trusts, removes refinancing requirements for the country’s youngest telco but would encumber it with a material

cash cost in the early years since Jio has inked a 20-year pact for 50% of the fibre capacity and is also the anchor tenant on the 175,000-odd towers.

Some experts stressed though that Jio’s costs would decrease once external tenants come on board, though others said bringing new operator tenants won’t be easy

for the tower SPV as both incumbent telcos have their own tower arms (Indus Towers and Bharti InfraTel).

Parent Reliance Industries said at last week’s analyst meet that the new tenants for the towers SPV

would primarily be telcos, but for fibre there could be multiple players, including internet services providers (ISPs), media distribution companies, enterprise customers and telcos.

Goldman Sachs estimates RIL’s capex intensity in telecom to drop significantly in 2019-20 with merger of Jio’s tower and fibre assets along with 99% population coverage.

Jio’s capex in the fourth quarter of FY20 was pegged at ₹21,500 crore and total capex for the fiscal stood at \$10 billion (about ₹70,000 crore).

Brokerage Kotak Institutional Equities, however, expressed surprise over why Jio’s Ebitda mar-

gin has remained stagnant at 38-39% for five consecutive quarters, noting that it expanded merely 120 basis points (bps) year-on-year in the March quarter, despite a 56% year-on-year revenue growth to ₹11,106 crore, even as network operating expenditure jumped 88% year-on-year.

“Lack of operating leverage in earnings prints continues to surprise as network opex per unit of data carried on the network stayed flat. This challenges our understanding of the wireless business being an inherently high operating leverage one, and Jio has been remarkably consistent in challenging our understanding of the business,” Kotak said in a note seen by ET.

Analysts say a reason could be that Jio is capitalising lesser than previously its depreciation and amortisation costs, and recognising more in the P&L as coverage reaches 99% of the country’s population.

The Mukesh Ambani-led carrier, which has 306.7 million users, reported a 65% jump in net profit in the fourth quarter — its sixth straight profitable quarter — propelled by strong customer additions and data consumption.

JM Financial said Jio is set to emerge as the biggest telco in the quarter to March 2019, on the strength of its ₹11,100 crore revenue that is likely to exceed market leader VIL’s estimated ₹10,900 crore in the same period.

