

Steep capex, trivial FCF!

- Jio's Q2FY24 was in-line and mixed. Revenue/EBITDA/APAT grew by 9.9/12.7/12.1% YoY and 2.9/3.0/4% QoQ. Sub adds was healthy for 6th quarter at 11.2mn. ARPU was muted at +0.7% QoQ despite an extra day.
- In a quasi-duopoly market especially post 5G, Jio is a healthy growth story in the medium term. Jio's 5G strategy and pick-up would be key to monitor in near-term. Persistently high capex and weak FCF is a concern.
- Maintain estimates. We value Jio at an Enterprise/Equity Value of Rs 1,250/1,007 per share @ 10x FY26E EV/EBITDA (earlier Rs 1,085/830 @ 10x FY25E).

P&L fine though moderate in Q2FY24.....

Jio's revenue/EBITDA/APAT grew by 9.9/12.7/12.1% YoY and 2.9/3.0/4% QoQ. EBITDA Margin stood at 52.3% (flat for 4th quarter and +132bps YoY led by lower license fees on 5G spectrum acquisition. Subs addition was healthy for 6th consecutive quarter at 11.2mn (FY23 at 29.1mn vs. -16mn in FY22). ARPU at Rs 181.7, +2.6/0.7% YoY/QoQ. ARPU was muted despite an extra-day. GB/sub increased to 26.6GB, +6.9% and MOUs/sub -3% QoQ to ~976mins.

.....BS a challenge

In FY23, excl. spectrum acquisition of Rs 880bn, capex stood at ~Rs 573bn (cash capex at Rs 336bn). H1FY24 capex stood at Rs 383bn (cash capex Rs 169bn). Jio's capex intensity continues to remain significantly higher. Net debt increased by Rs ~161bn to Rs 2.18tn (incl. LL of Rs 134bn). FCF stood at ~Rs 67bn in FY23 but was trivial in H1FY24 at Rs 3bn (viz. OCF of Rs 269bn off-set by cash capex of Rs 165bn and finance costs of Rs 93bn). Finance costs as per CF in H1FY24 was Rs 93bn vs. Rs 41bn in H1FY23 and Rs 79bn in FY23. Steep capex, trivial FCF and high debt are key challenges from short-to-medium term perspective.

Aggressive subscriber acquisition strategy to continue

Despite higher data usage QoQ and FTTH additions, lack of improvement in ARPU is not welcoming. We presume Jio would continue with its aggressive subscriber acquisition strategy till the weak competitor is marginalized.

Q2FY24 Result (Rs Mn)

Particulars	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)
Revenue	2,47,500	2,25,210	9.9	2,40,420	2.9
Total Expense	1,17,970	1,10,320	6.9	1,14,640	2.9
EBITDA	1,29,530	1,14,890	12.7	1,25,780	3.0
Depreciation	52,580	45,230	16.3	51,590	1.9
EBIT	76,950	69,660	10.5	74,190	3.7
Other Income	1,060	1,120	(5.4)	850	24.7
Interest	10,080	10,160	(0.8)	9,710	3.8
EBT	67,930	60,620	12.1	65,330	4.0
Tax	17,350	15,440	12.4	16,700	3.9
RPAT	50,580	45,180	12.0	48,630	4.0
APAT	50,580	45,180	12.0	48,630	4.0
			(bps)		(bps)
Gross Margin (%)	89.5	88.9	68	89.5	4
EBITDA Margin (%)	52.3	51.0	132	52.3	2
NPM (%)	31.1	30.9	16	30.9	23
Tax Rate (%)	20.4	20.1	38	20.2	21
EBIT Margin (%)	25.5	25.5	7	25.6	(2)

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Exhibit 1: Actual vs. Estimates – Q4FY23

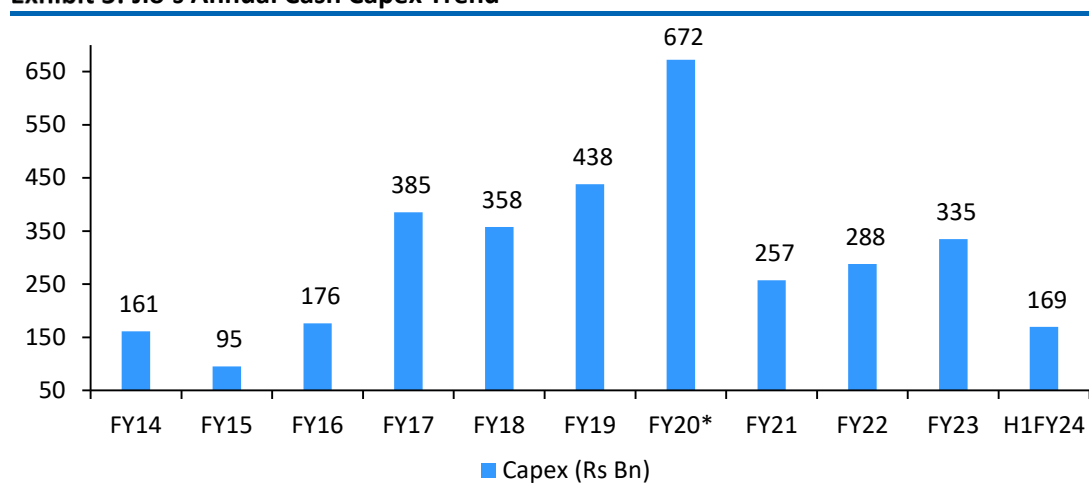
Particulars (Rs mn)	Actual	Estimate	Variance (%/bps)	Remark
Avg Subs (Mn)	454.1	452.5	0.4	Number below estimates led by lower than expected ARPU
Closing Subs (Mn)	459.7	456.5	0.7	
ARPU (Rs)	181.7	184.3	(1.4)	
Net Sales (Rs Bn)	247.5	250.2	(1.1)	
EBITDA (Rs Bn)	129.5	131.3	(1.3)	
EBITDA Margin (%)	52.3	52.5	(14)	
APAT (Rs Bn)	50.6	51.4	(1.5)	

Source: Company, DART

Exhibit 2: Change in Estimates

Particulars (Rs mn)	FY24E			FY25E			Remarks
	Old	New	Chg.(%)	Old	New	Chg.(%)	
Closing Subs (Mn)	470	475	1.0	500	505	0.9	Broadly maintain estimates
ARPU (Rs)	188	187	(0.4)	211	209	(0.9)	
Revenue (Rs Bn)	1,026	1,027	0.1	1,226	1,229	0.2	
EBITDA (Rs Bn)	541	540	(0.3)	653	651	(0.3)	
EBITDA Margin (%)	52.8	52.5	(26)	53.2	53.0	(22)	
APAT (Rs Bn)	214	214	0.0	269	270	0.3	

Source: Company, DART

Exhibit 3: Jio's Annual Cash Capex Trend


Source: Company, DART, *FY20 includes Rs 402bn adjustment towards creditors as per scheme of arrangement

Exhibit 4: Jio's Reported Cash Flows

Particulars (Rs bn)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	H1 FY24	Total FY14-H1FY24
Net Profit/(Loss) before tax	(0)	(0)	(0)	(0)	11	46	76	161	199	244	133	869
Dep./Finance costs/Others	0	0	0	0	54	96	126	146	179	238	123	963
Wcap change	(12)	(28)	(43)	(34)	(29)	(75)	(37)	19	(64)	(2)	8	(298)
Operating Cash Flow	(13)	(28)	(44)	(34)	36	67	166	326	313	481	265	1,534
Purchase of PPE	(161)	(95)	(176)	(385)	(358)	(438)	(672)	(257)	(288)	(335)	(169)	(3,336)
Investment/Loans	(11)	(3)	(3)	(1)	(1)	(1)	-	-	-	-	-	(20)
Purchase/(sale) of Invts.	0	(3)	3	0	(0)	(2)	(11)	14	(1)	1	(50)	(49)
Investing Cash Flow	(172)	(101)	(177)	(386)	(359)	(442)	(684)	(243)	(289)	(334)	(219)	(3,405)
Equity Capital Issuance	179	71	150	-	-	-	-	-	-	-	-	399
Preference Capital Issuance/(redemption)	(26)	72	-	337	313	-	1,250	-	-	-	-	1,945
Borrowings	37	(0)	103	141	102	460	(551)	(120)	120	(66)	78	303
Finance Costs	(4)	(13)	(33)	(58)	(85)	(92)	(110)	(31)	(144)	(79)	(93)	(742)
Financing Cash Flow	185	129	220	420	330	368	588	(152)	(24)	(145)	(15)	1,906
Change in Cash & CE	0	(0)	(0)	0	7	(7)	70	(69)	0	2	30	35
FCF (OCF + PPE + Finance costs)	(178)	(137)	(253)	(478)	(407)	(463)	(617)	37	(119)	67	2	(2,545)

Source: Company, DART

Exhibit 5: Quarterly Financial Snapshot

(Rs Mn)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	% YoY	% QoQ
Revenue	1,93,470	2,09,010	2,18,730	225,210	229,980	233,940	2,40,420	2,47,500	9.9	2.9
Access Costs	2,290	1,900	2,570	1,890	2,200	2,820	3,210	2,990	58.2	(6.9)
Net revenue	1,91,180	2,07,110	2,16,160	223,320	227,780	231,120	2,37,210	2,44,510	9.5	3.1
License fees	22,520	25,040	25,360	23,210	21,200	21,550	22,040	22,900	(1.3)	3.9
Network Costs	62,430	65,330	68,420	71,810	72,270	72,240	73,790	76,070	5.9	3.1
Employee Costs	3,610	3,680	3,690	4,280	4,000	4,370	4,420	4,680	9.3	5.9
S&D	2,690	3,100	3,620	4,340	4,980	5,280	5,390	5,770	32.9	7.1
Other expenses	4,790	4,860	5,430	4,790	5,240	5,580	5,790	5,560	16.1	(4.0)
Operating Costs	96,040	1,02,010	1,06,520	108,430	107,690	109,020	1,11,430	1,14,980	6.0	3.2
EBITDA	95,140	1,05,100	1,09,640	114,890	120,090	122,100	1,25,780	1,29,530	12.7	3.0
D&A	35,680	37,440	42,310	45,230	48,100	49,820	51,590	52,580	16.3	1.9
Int. & Fin. charge	12,540	12,180	9,970	10,160	10,400	10,060	9,710	10,080	(0.8)	3.8
Other Income	1,550	440	820	1,120	630	1,050	850	1,060	(5.4)	24.7
PBT	48,470	55,920	58,180	60,620	62,220	63,270	65,330	67,930	12.1	4.0
Tax	12,320	14,190	14,830	15,440	15,840	16,110	16,700	17,350	12.4	3.9
APAT	36,150	41,730	43,350	45,180	46,380	47,160	48,630	50,580	12.4	4.0

Source: Company, DART

Exhibit 6: Margin Analysis (%)

Particulars	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY bps	QoQ bps
Access Costs	1.2	0.9	1.2	0.8	1.0	1.2	1.3	1.2	37	(13)
License fees	11.6	12.0	11.6	10.3	9.2	9.2	9.2	9.3	(105)	9
Network Costs	32.3	31.3	31.3	31.9	31.4	30.9	30.7	30.7	(115)	4
Employee Costs	1.9	1.8	1.7	1.9	1.7	1.9	1.8	1.9	(1)	5
S&D	1.4	1.5	1.7	1.9	2.2	2.3	2.2	2.3	40	9
Other expenses	2.5	2.3	2.5	2.1	2.3	2.4	2.4	2.2	12	(16)
Operating Costs (ex-Access)	49.6	48.8	48.7	48.1	46.8	46.6	46.3	46.5	(169)	11
EBITDA	49.2	50.3	50.1	51.0	52.2	52.2	52.3	52.3	132	2
D&A	18.4	17.9	19.3	20.1	20.9	21.3	21.5	21.2	116	(21)
Interest costs	6.5	5.8	4.6	4.5	4.5	4.3	4.0	4.1	(44)	3
Other Income	0.8	0.2	0.4	0.5	0.3	0.4	0.4	0.4	(7)	7
PBT	25.1	26.8	26.6	26.9	27.1	27.0	27.2	27.4	53	27
Tax	6.4	6.8	6.8	6.9	6.9	6.9	6.9	7.0	15	6
APAT	18.7	20.0	19.8	20.1	20.2	20.2	20.2	20.4	38	21
LF as % of NR	11.8	12.1	11.7	10.4	9.3	9.3	9.3	9.4	(103)	7
Tax as % of PBT	25.4	25.4	25.5	25.5	25.5	25.5	25.6	25.5	7	(2)

Source: Company, DART

Exhibit 7: Quarterly Operational Snapshot

Particulars	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	% YoY	% QoQ
Closing Subs (Mn)	421.0	410.2	419.9	427.6	432.9	439.3	448.5	459.7	7.5	2.5
Gross Adds (Mn)	34.6	35.5	35.2	32.7	34.2	33.2	33.2	34.4	5.1	3.6
Churn (Mn)	43.1	46.3	25.5	25.0	28.9	26.8	24.0	23.2	(7.4)	(3.4)
Net Adds (Mn)	(8.5)	(10.8)	9.7	7.7	5.3	6.4	9.2	11.2	45.5	21.7
Monthly Churn (%)	3.38	3.71	2.05	1.97	2.24	2.05	1.80	1.70	(27)	(10)
ARPU (Rs)	151.7	167.6	175.7	177.2	178.2	178.8	180.5	181.7	2.6	0.7
Data Usage (Mn GB)	23,400	24,600	25,900	28,200	29,000	30,300	33,200	36,300	28.7	9.3
Data Usage/Sub (GB/Month)	18.3	19.7	20.8	22.2	22.5	23.2	24.9	26.6	20.1	6.9
Minutes of Usage (Bn Mins)	1,150	1,200	1,250	1,230	1,270	1,310	1,340	1,330	8.1	(0.7)
MOU/Sub (Mins)	901	962	1,004	968	984	1,001	1,006	976	0.9	(3.0)

Source: Company, DART

Exhibit 8: Key Model Assumptions

Particulars	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Closing Subs (Mn)	306.7	387.5	426.2	410.2	439.3	469.5	499.5	528.7
Net Additions (Mn)	120.1	80.8	38.7	(16.0)	29.1	30.2	30.0	24.0
ARPU (Rs)	137.4	132.1	143.1	153.4	178.1	188.2	210.9	235.2
Data Usage (Mn GB)	32,330	47,866	61,160	91,300	113,400	1,39,936	1,60,580	1,94,662
Data Usage/Sub (MBs)	10.92	11.49	12.53	18.19	22.25	25.66	27.62	31.40
Minutes of Usage (Bn Mins)	2,341	3,301	3,830	4,504	5,060	5,576	6,181	6,672
MOU/Sub (Mins)	791	793	784	897	993	1,023	1,063	1,076
Revenue (Rs Bn)	406.6	550.2	698.9	769.8	907.9	1,026.2	1,226.1	1,458.4
EBITDA (Rs Bn)	151.0	222.7	309.1	376.3	466.7	541.5	652.6	787.0
EBITDA Margin (%)	37.1	40.5	44.2	48.9	51.4	52.8	53.2	54.0
Chg YoY/bps (%)								
Closing Subs (Mn)	64.4	26.3	10.0	(3.8)	7.1	6.9	6.4	4.8
ARPU (Rs)	(4.9)	(3.9)	8.4	7.2	16.1	5.7	12.1	12.5
Data Usage (Mn GB)	145.9	48.1	27.8	49.3	24.2	23.4	14.8	14.8
Data Usage/Sub (MBs)	15.9	5.2	9.0	45.2	22.3	15.3	7.6	8.8
Minutes of Usage (Bn Mins)	151.9	41.0	16.0	17.6	12.3	10.2	10.8	11.2
MOU/Sub (Mins)	18.7	0.2	(1.0)	14.4	10.6	3.0	4.0	5.4
Revenue (Rs Bn)	101.8	35.3	27.0	10.1	17.9	13.0	19.5	18.7
EBITDA Margin (Rs Bn)	124.3	47.5	38.8	21.7	24.0	16.0	20.5	20.9

Source: Company, DART

Exhibit 9: Valuation Snapshot

Particulars	Amount (Rs bn)	Target multiple	EV (Rs bn)	Value per share (Rs)
FY26E EBITDA	787	10.0	7,854	1,158
CWIP in FTTH/Enterprise	326	0.50	163	24
Intangible assets under development	918	0.50	459	68
Enterprise Value			8,476	1,250
(-) FY26E Net debt			1,647	243
Equity Value			6,829	1,007

Source: Company, DART

Financial Performance

Income Statement

(Rs bn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	406.6	550.2	698.9	769.8	907.9	1,027.1	1,229.0	1,458.4
Growth (%)	101.8	35.3	27.0	10.1	17.9	13.1	19.7	18.7
Net Access costs	60.3	58.0	46.3	8.1	9.5	11.6	12.3	14.6
Net revenue	346.3	492.3	652.6	761.7	898.4	1,015.5	1,216.7	1,443.9
Growth (%)	118.3	42.1	32.6	16.7	17.9	13.0	19.8	18.7
License fee	41.6	57.2	77.6	90.7	91.3	94.8	113.7	134.9
LF as % of NR	12.0	11.6	11.9	11.9	10.2	9.3	9.3	9.3
Network & IT costs	113.4	169.3	220.6	250.1	284.7	313.6	365.9	419.8
Employee costs	16.6	14.6	13.4	14.2	16.3	19.9	24.6	29.2
SG&A	11.5	12.8	11.7	11.0	18.2	22.8	27.7	32.8
Other Expenses	12.3	15.6	20.2	19.3	21.0	24.8	33.8	40.1
Total Opex	153.8	212.3	265.9	294.7	340.3	381.1	451.9	521.9
EBITDA	151.0	222.7	309.1	376.3	466.7	539.6	651.1	787.0
EBITDA (%)	37.1	40.5	44.2	48.9	51.4	52.5	53.0	54.0
EBITDA Growth (%)	124.3	47.5	38.8	21.7	24.0	15.6	20.7	20.9
Depreciation	64.0	74.0	115.3	136.2	185.5	214.9	245.7	282.0
EBIT	87.0	148.8	193.8	240.2	281.3	324.7	405.4	505.0
Other Income	0.1	0.9	5.5	2.3	3.6	3.8	3.8	3.8
Interest	41.5	66.2	38.4	43.8	40.6	41.0	47.1	54.1
PBT	45.6	83.5	160.9	198.7	244.3	287.5	362.1	454.8
Tax	15.9	19.3	40.7	50.5	62.2	73.4	92.3	116.0
APAT	29.6	64.1	120.2	148.2	182.1	214.1	269.8	338.8
APAT Growth (%)	310.0	116.3	87.4	23.3	22.9	17.6	26.0	25.6

E: Estimate

Balance Sheet

(Rs bn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
SOURCES OF FUNDS								
Equity Share Capital	450	450	450	450	450	450	450	450
Preference Share Capital	-	1,250	1,250	1,250	1,250	1,250	1,250	1,250
Reserves	(46)	10	130	278	460	674	944	1,283
Total Shareholders' Funds	404	1,710	1,830	1,978	2,160	2,374	2,644	2,983
Long term debt	756	135	155	224	278	389	285	211
Short term debt	521	282	189	324	444	537	457	399
Deferred spectrum payment	202	188	188	372	1,173	1,143	1,131	1,118
Lease Liabilities	-	-	-	100	137	144	151	159
Total Debt	1,479	605	532	1,020	2,032	2,213	2,024	1,886
Other non-current liabilities	-	-	25	77	142	176	168	160
SOURCES OF FUNDS	1,883	2,315	2,387	3,074	4,334	4,763	4,835	5,028
APPLICATION OF FUNDS								
Net Block	1,686	1,847	1,881	2,644	3,912	4,247	4,301	4,319
Other non-current assets	136	286	395	251	249	260	273	286
Total Non-current Assets	1,823	2,133	2,277	2,895	4,161	4,507	4,574	4,605
Cash & Equivalents	6	89	10	12	14	46	65	238
Other Current Assets	129	196	214	278	283	332	324	319
Total Current Assets	135	284	224	290	297	377	389	557
Total Current Liabilities	74	102	114	111	124	121	128	134
Net Current Assets	61	182	111	179	173	256	261	423
APPLICATION OF FUNDS	1,883	2,315	2,387	3,074	4,334	4,763	4,835	5,028

E: Estimate

Cash Flows

(Rs bn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Reported PAT	30	64	120	148	182	214	270	339
Net interest expense	41	66	38	44	41	41	47	54
Depreciation	64	74	115	136	185	215	246	282
Working Capital Change & others	64	(39)	(7)	(67)	9	(51)	14	12
OPERATING CF (a)	199	166	267	261	417	419	576	687
Capex	505	(235)	(150)	(899)	(1,453)	(550)	(300)	(300)
Free cash flow (FCF)	704	(69)	117	(638)	(1,037)	(131)	276	387
Investments	(53)	(149)	(84)	196	67	23	(21)	(21)
INVESTING CASH FLOW (b)	452	(384)	(234)	(703)	(1,386)	(527)	(321)	(321)
Debt Issuance	41	(874)	(73)	487	1,013	181	(189)	(138)
Interest expenses	(41)	(66)	(38)	(44)	(41)	(41)	(47)	(54)
FCFE	650	(1,159)	(79)	2	3	31	19	174
Share capital Issuance	(655)	1,241	0	(0)	-	-	-	-
Dividends	-	-	-	-	-	-	-	-
FINANCING CASH FLOW (c)	(655)	301	(112)	444	972	140	(236)	(192)
NET CASH FLOW (a+b+c)	(5)	83	(79)	2	3	31	19	174
Closing Cash & Equivalents	6	89	10	12	14	46	65	238

E: Estimate

Key Ratios

	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
PROFITABILITY (%)								
EBITDA Margin	37.1	40.5	44.2	48.9	51.4	52.5	53.0	54.0
EBIT Margin	21.4	27.0	27.7	31.2	31.0	31.6	33.0	34.6
APAT Margin	7.3	11.7	17.2	19.2	20.1	20.8	22.0	23.2
RoE	4.1	6.1	6.8	7.8	8.8	9.4	10.8	12.0
RoIC (or Core RoCE)	2.6	5.6	6.3	6.6	5.7	5.4	6.4	7.9
RoCE	2.6	5.4	6.2	6.6	5.7	5.3	6.3	7.6
EFFICIENCY								
Tax Rate (%)	34.9	23.2	25.3	25.4	25.5	25.5	25.5	25.5
Fixed Asset Turnover (x)	0.2	0.3	0.4	0.3	0.3	0.3	0.3	0.3
Other Current Assets (days)	116.2	129.9	111.9	131.9	113.7	117.8	96.3	79.7
CL & Provisions (days)	66.7	67.8	59.4	52.5	49.9	43.1	37.9	33.6
Cash Conversion Cycle (days)	49.4	62.1	52.5	79.4	63.8	74.7	58.4	46.2
Net D/E (x)	3.6	0.3	0.3	0.5	0.9	0.9	0.7	0.6
Net D/EBITDA (x)	9.8	2.3	1.7	2.7	4.3	4.0	3.0	2.1
Interest Coverage (x)	2.1	2.2	5.0	5.5	6.9	7.9	8.6	9.3
PER SHARE DATA (Rs)								
EPS	0.7	1.4	2.7	3.3	4.0	4.8	6.0	7.5
CEPS	2.1	3.1	5.2	6.3	8.2	9.5	11.5	13.8
Dividend	-	-	-	-	-	-	-	-
Book Value	9.0	38.0	40.7	44.0	48.0	52.8	58.8	66.3

E: Estimate

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

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