

## Our previous report on telecom sector



## RJio alters pricing in a surprise move

### This could prolong industry ARPU recovery

- Reliance Jio (RJio) has cut ARPU by 10-25% (INR50-60) for its four popular plans, in a move that could potentially reverse the past-nine-month trend of ARPU accretion. The price cuts come as a negative surprise, especially as RJio seemed to have shifted focus on profitability with the launch of two ARPU-accretive plans recently.
- The move, in our view, could be an attempt to eat into the subscriber market shares of smaller operators (Tata Tele, Telenor, RCom, Sistema) before they merge/consolidate over the next six months.
- Larger players Bharti and Vodafone's popular price plans are at a meager 11-15% premium to RJio, while Idea's plans are at ~23% premium. We believe Bharti and Idea's data subscriber ARPUs may be 25-30% below their popular price plans, which limits the risk of downtrading – consumers will have little incentives in shifting to RJio's lower-priced plans. Our FY19 estimates for Bharti/Idea build in flat ARPU growth, and thus, the scope to revise estimates is limited.
- This move by RJio could prolong the period of hyper competition. However, we expect rationality to prevail in the industry over the next 2-3 quarters, as Bharti and Vodafone-Idea should have steady data capacity and FCF, forcing them to drive growth through ARPU accretion instead of undercutting each other. We maintain our positive stance on Bharti and Idea.

### RJio cuts ARPU by 10-25% – a negative surprise

In a move that could potentially reverse the ARPU accretion trend (4-5 price hikes taken over the last nine months), RJio (according to media reports) cut ARPU by 10-25% (INR50-60) for its four most popular price plans – INR149/28 days, INR349/70 days, INR399/84days and INR449/91days. The move has negatively surprised us, given that i) it had launched two new price plans – INR199 and INR299 (28 days validity) – last week, with 30% higher ARPUs and ii) management has been indicating about ARPU accretion to improve profitability.

### Intention may be to chase subscriber base of smaller operators

We believe the move is intended to eat into the subscriber market share of small vulnerable players like i) Tata Tele and Telenor before they merge with Bharti and ii) RCom and Sistema as they plan to shut operations over the coming 6-9 months. Given that most of subscribers with smaller operators are deal-hunters with low ARPU of INR100-120, RJio may plan to attract them before they shift to Bharti and Idea.

### Bharti-Vodafone price plans at 11-15% premium to RJio

Over the past month, large peers like Bharti and Vodafone have launched price plans offering unlimited voice and 1GB/day data for 80-90 days at INR450-500, which is at 11-15% premium to RJio. On the other hand, Idea's price plans are at ~23% premium. In terms of network experience too, Bharti has healthy data network and should be able to match RJio's data capacity.

Vodafone and Idea too, albeit currently focused on the merger, may reach healthy data network over the next 6-9 months. This should allow these large operators to compete with RJio in order to protect their market shares. Smaller operators, on the other hand, have limited wherewithal to match RJio's ARPUs and data experience.

#### **Bharti/Idea estimates build in limited ARPU recovery**

Bharti/Idea's 3QFY18 ARPU is estimated at INR127/INR116, with ~25% data subscribers and average data subscriber ARPU of INR200/INR175 (implying 25-30% higher data ARPU compared to their popular price plans). Given this, consumers, in our view, will have limited incentives in revising their price plans, and thus, the risk of downtrading is limited. We are building in flat ARPU growth for Bharti/Idea to INR138/INR125 for FY19. Flat ARPU growth for the larger players could prolong industry ARPU recovery, in our view. The move by RJio could lead us to revise our ARPU estimates of 15%/10% growth for 4QFY18/FY19. However, before making any changes to our estimates, we would await management commentary in 3QFY18 results.

#### **Expect prolonged phase of hyper competition, but rationality may prevail**

The move by RJio could prolong industry ARPU recovery. However, we also note that the scope of ARPU downtrading is limited from current levels. RJio was able to take subscriber market share from smaller players via intensive price competition over the last 12 months. Over the next 6-9 months, Vodafone-Idea combined entity's increased data capacity and FCF (through synergy), and Bharti's completion of aggressive network capex should create three strong players in the industry. We believe this may force each player to drive growth through ARPU accretion instead of undercutting. We maintain our positive stance on Bharti and Idea.

**Exhibit 1: RJio's new v/s old price plans (INR)**

Validity (days)	28	70	84	91
<u>Jan'18</u>	149	349	399	449
Effective monthly ARPU (pre GST)	160	150	143	148
<u>Oct'17</u>	199	399	459	499
Effective monthly ARPU (pre GST)	213	171	164	165
<i>Change in ARPU (%)</i>	-25%	-13%	-13%	-10%

Source: MOSL, Company

**Exhibit 2: Bharti/Vodafone/Idea's ~INR450 plan v/s RJio's new INR449 plan**

Company	RJio (New)	RJio (Old)	Bharti	Vodafone	Idea
Price Plans (INR)	399	459	448	458	449
Validity	84	84	82	84	70
Effective monthly plan	143	164	164	164	192
<i>Plans premium/ (discount) to RJio's new plan</i>		15%	15%	15%	35%
GB (daily)	1	1	1	1	1
<i>Price/GB</i>	4.8	5.5	5.5	5.5	6.4

Source: MOSL, Company

**Exhibit 3: Bharti/Vodafone/Idea's INR509 plan v/s RJio's new INR449 plan**

Company	RJio (New)	RJio (Old)	Bharti	Vodafone	Idea
Price Plans (INR)	449	499	509	509	509
Validity	91	91	91	91	84
Effective monthly plan	148	165	168	168	182
<i>Plans premium/ (discount) to RJio's new plan</i>		11%	13%	13%	23%
GB (daily)	1	1	1	1	1
<i>Price/GB</i>	4.9	5.5	5.6	5.6	6.1

Source: Company, MOSL

**Exhibit 4: Comparison to RJio's new 84 days plan**

Company	RJio (New)	RJio (Old)	Bharti	Vodafone	Idea
Validity (days)	84	84	82	84	84
Price Plans (INR)	399	459	448	458	509
Effective monthly ARPU (pre GST)	143	164	164	164	182
<i>Plans premium/ (discount) to RJio's new plan</i>		15%	15%	15%	28%
GB (daily)	1	1	1	1	1
<i>Effective monthly price/GB</i>	4.8	5.5	5.5	5.5	6.1

Source: MOSL, Company

**Exhibit 5: Comparison to RJio's new 91-day plan**

Company	RJio (New)	RJio (Old)	Bharti	Vodafone	Idea
Validity (days)	91	91	91	91	84
Price Plans (INR)	449	499	509	509	509
Effective monthly ARPU (pre GST)	148	165	168	168	182
<i>Plans premium/ (discount) to RJio's new plan</i>		11%	13%	13%	23%
GB (daily)	1	1	1	1	1
<i>Effective monthly price/GB</i>	4.9	5.5	5.6	5.6	6.1

Source: MOSL, Company

**Exhibit 6: RJio's price plans as on January-18 (INR)**

	149	153	199	299	309	349	399	449	509
Validity (days)	28	28	28	28	49	70	84	91	49
Effective monthly plan (pre GST)	160	153	213	320	189	150	143	148	312
GB (daily)	1	0.5	1.2	1	1	1	1	1	1
Effective monthly price/GB	5.3	10.9	5.9	10.7	6.3	5.0	4.8	4.9	10.4

Source: MOSL, Company

**Exhibit 7: RJio's price plans as on Diwali (October-17) (INR)**

	149	153	309	399	459	499	509
Validity (days)	28	28	49	70	84	91	49
Effective monthly plan (pre GST)	160	153	189	171	164	165	312
GB (daily)	0.15	0.5	1	1	1	1	2
Effective monthly price/GB	35.5	10.9	6.3	5.7	5.5	5.5	5.2

Source: MOSL, Company

**Exhibit 8: Bharti Airtel's price plans (INR)**

	199	349	448	509	549
Validity (days)	28	28	82	91	28
Effective monthly plan (pre GST)	213	374	164	168	588
GB (daily)	1	2	1	1	3
Effective monthly price/GB	7.1	6.2	5.5	5.6	6.5

Source: MOSL, Company

**Exhibit 9: Vodafone's price plans (INR)**

	196	198	349	399	458	509
Validity (days)	28	28	28	70	84	91
Effective monthly plan (pre GST)	210	212	374	171	164	168
GB (daily)	1	1	2	1	1	1
Effective monthly price/GB	7.0	7.1	6.1	5.7	5.5	5.6

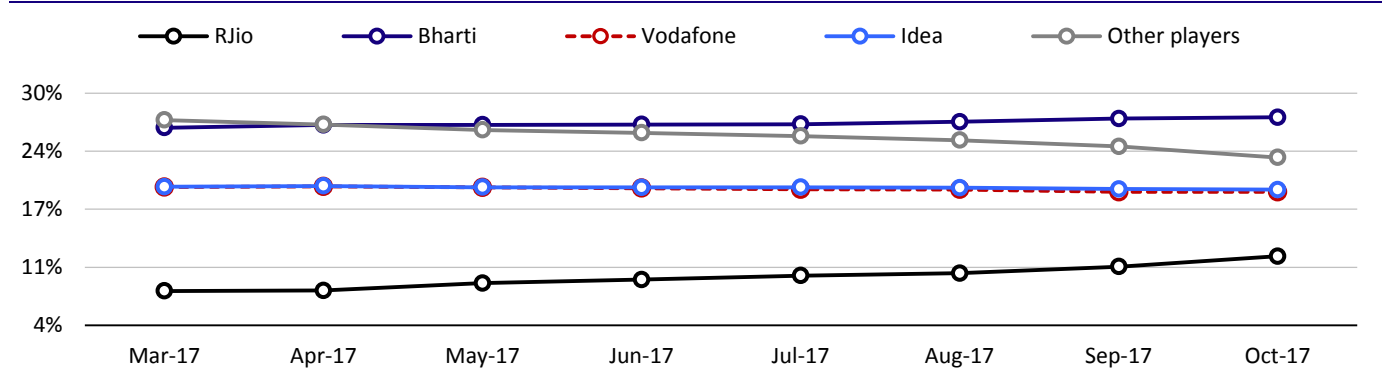
Source: Company, MOSL

**Exhibit 10: Idea's price plans (INR)**

	199	309	357	449	498	509
Validity (days)	28	28	28	70	77	84
Effective monthly plan (pre GST)	213	331	383	192	194	182
GB (daily)	1	1.5	2	1	1	1
Effective monthly price/GB	7.1	7.4	6.4	6.4	6.5	6.1

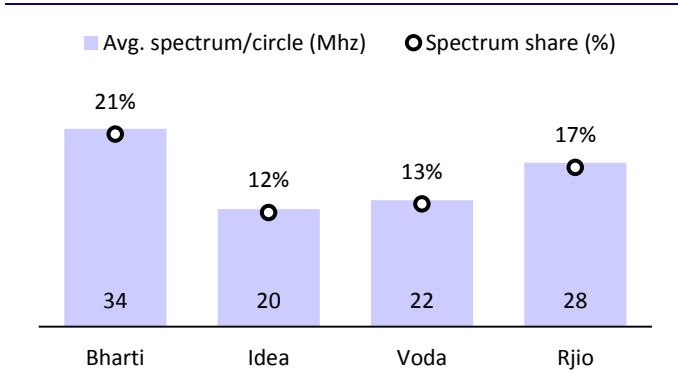
Source: MOSL, Company

**Exhibit 11: Company-wise active subscriber market share (%)**



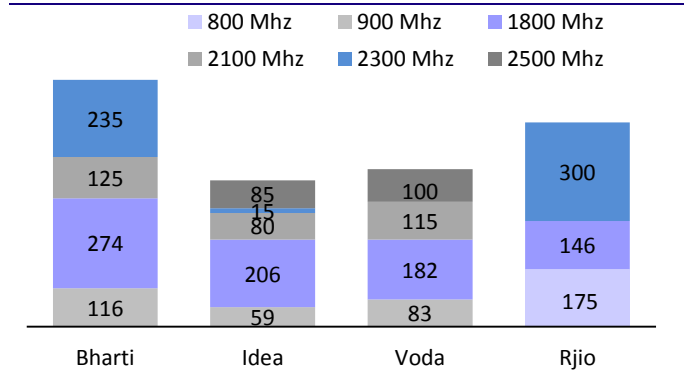
Source: TRAI, MOSL

**Exhibit 12: Bharti and RJio hold most of the current spectrum**



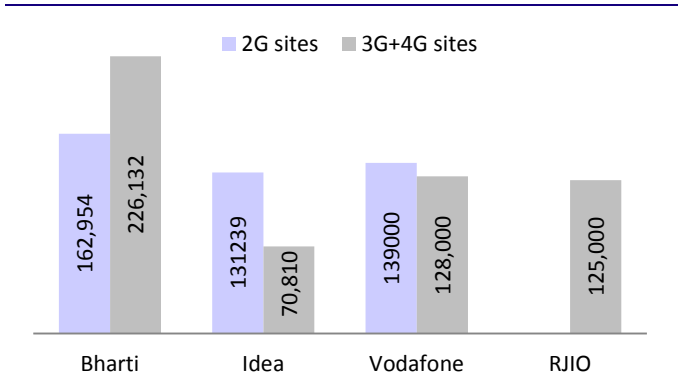
Source: TRAI, MOSL, Company

**Exhibit 13: Operator-wise/band-wise spectrum holdings**



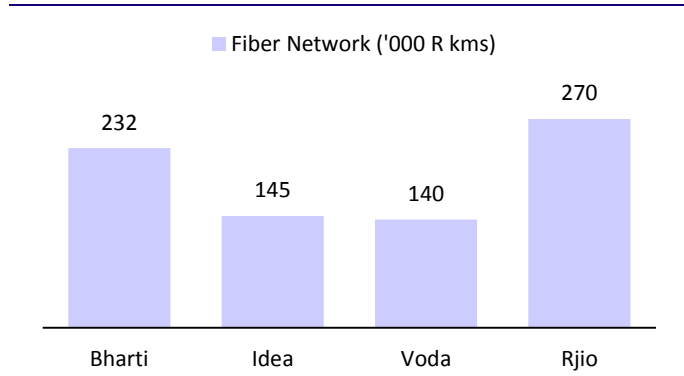
\*2300/2500 assumed as paired spectrum Source: TRAI, MOSL, Company

**Exhibit 14: Top 4 operator-wise cell sites (2QFY18)**



Source: MOSL, Company

**Exhibit 15: Operator-wise/band-wise spectrum holdings**



Source: MOSL, Company

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