

India Telecom: 5G Launched Officially

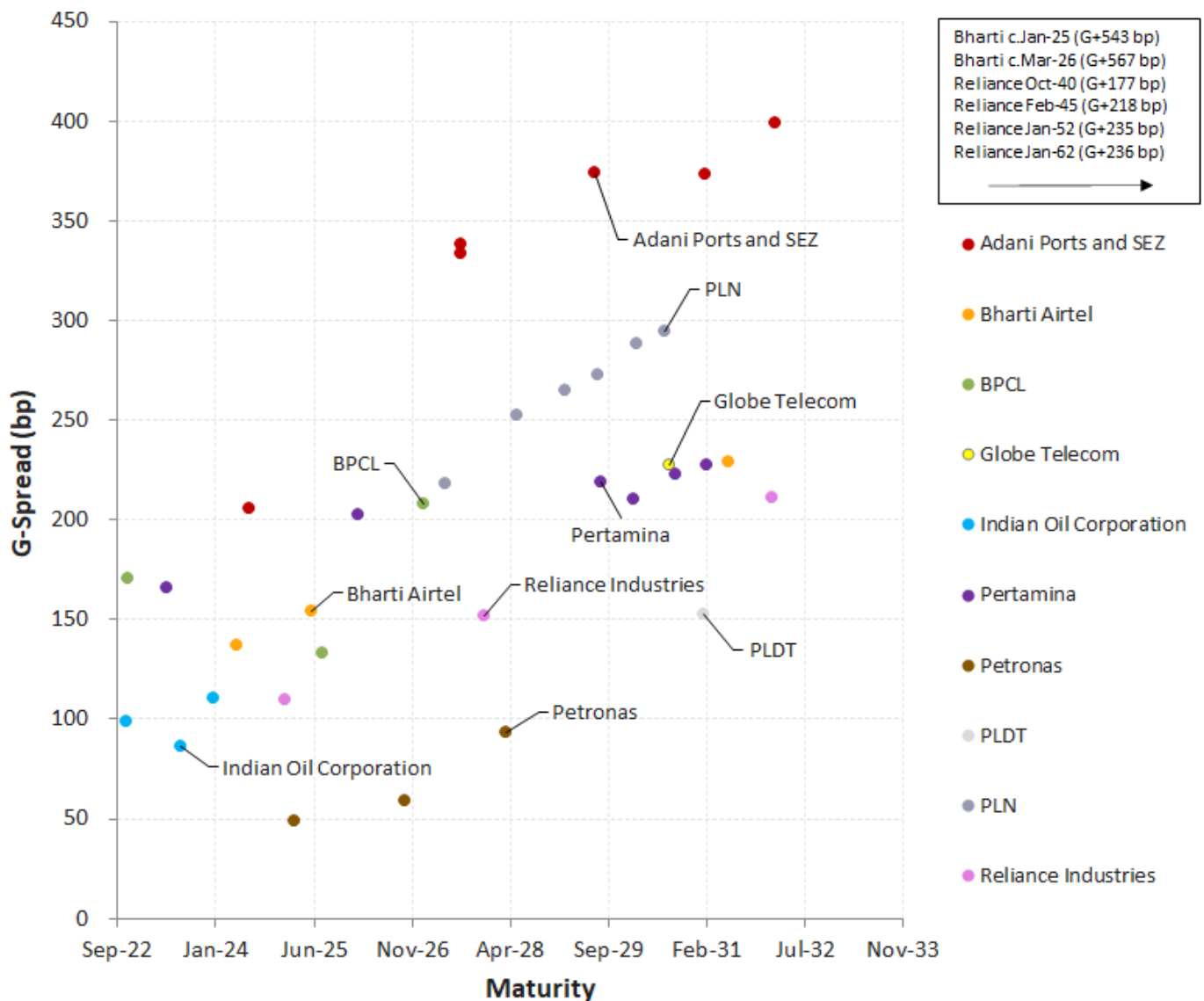
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Executive Summary

- **We maintain our Market perform recommendations on Bharti Airtel (Baa3/ BBB-/ BBB-) and Reliance Industries (Baa2/ BBB+/ BBB).**
- **5G telecom services were officially launched in India last Saturday.** Rollouts would be conducted in a phased manner, beginning with several major cities in Oct-2022 and pan-India coverage by Dec-2023/Mar-2024.
- **We believe the 5G scene will remain largely dominated by the two leading players Bharti and Reliance Jio, in view of their sizable 5G spectrum holdings and Vodafone Idea's ongoing debt woes.**
- **We foresee 5G subscriber demand to grow only modestly in the near-term, as a lack of affordable 5G handsets and costlier 5G data plans could initially deter price-conscious customers from switching to 5G.**
- **We expect 5G data plans to be priced ~10-12% higher than existing 4G data plans, which would likely aid ARPU growth ahead.**
- **We anticipate hefty 5G capex to induce a mildly negative but manageable credit impact on both Bharti and Reliance.**

Relative Value

South and Southeast Asia: Selected Investment Grade Corporate \$ Bonds



Note: Data as at 4 October 2022. Source: Bloomberg, CreditSights.

India Telecom: Major \$ Bonds Outstanding

Issuer	Coupon	Maturity	Amount Out. (\$ mn)	Bond Ratings	Mid Price	G-spread (bp)	Mid YTW (%)	Reco.
Bharti Airtel	5.350%	20-May-24	550	Baa3/BBB-/BBB-	99.8	137	5.5%	Market perform
Bharti Airtel	4.375%	10-Jun-25	1,000	Baa3/BBB-/BBB-	96.6	154	5.8%	
Bharti Airtel	3.250%	3-Jun-31	750	Baa3/BBB-/BBB-	80.8	229	6.1%	
Network i2i (Bharti)	5.650%	Perpetual	1,000	NR/BB/BB	92.0	543	9.6%	
Network i2i (Bharti)	3.975%	Perpetual	500	NR/BB/BB	82.3	567	9.8%	
Reliance Industries	4.125%	28-Jan-25	1,000	Baa2/BBB+/BBB	97.4	110	5.3%	Market perform
Reliance Industries	3.667%	30-Nov-27	800	Baa2/BBB+/BBB	91.7	152	5.6%	
Reliance Industries	2.875%	12-Jan-32	1,500	Baa2/BBB+/BBB	78.4	211	5.9%	
Reliance Industries	6.250%	19-Oct-40	500	Baa2/BBB+/BBB	105.1	177	5.8%	
Reliance Industries	4.875%	10-Feb-45	750	Baa2/BBB+/BBB	84.4	218	6.2%	
Reliance Industries	3.625%	12-Jan-52	1,750	Baa2/BBB+/BBB	66.2	235	6.1%	
Reliance Industries	3.750%	12-Jan-62	750	Baa2/BBB+/BBB	65.0	236	6.1%	

Note: Data as at 4 October 2022. Source: Bloomberg, CreditSights.

We maintain our existing Market perform recommendations on Bharti Airtel (Baa3/ BBB-/ BBB-) and Reliance Industries (Baa2/ BBB+/ BBB). Bharti's Jun-25 and Jun-31 bonds trade 30-40 bp wider than Reliance's Jan-25 and Jan-32 bonds respectively; we deem this fair owing to Bharti's poorer net leverage and smaller, less diversified EBITDA base, and we believe investors have largely priced in the company's positive fundamentals. On the other hand, Reliance's Jan-25 bond trades 8 bp tighter than IOC's Jan-24 bond, which we consider fair considering it benefits from a well-diversified earnings profile and superior credit ratings.

Financial Metrics

Please refer to the links below for the relevant company pages.

[Bharti Airtel](#)

[Reliance Industries](#)

On 1 October 2022, India's Prime Minister Mr. Narendra Modi officially inaugurated 5G telecom services in India at the 2022 India Mobile Congress (IMC) in New Delhi. He shared that 5G rollouts would be conducted in phases, with the first phase expected to cover 13 Indian cities. All three major Indian telecom operators (Reliance Jio, Bharti Airtel and Vodafone Idea) demonstrated their 5G services and use cases at the event, and shared updates on their 5G rollout plans.

The 5G first phase and pan-India rollout timelines provided by Jio and Bharti were largely in line with their previous guidance provided in August 2022. We summarize these updates in the table below and provide our thoughts on the 5G mobile outlook in India.

IMC 2022: 5G Rollout Updates	
Company	Comments
Reliance Jio (Jio)	Reliance Jio is set to launch its 5G services across 4 Indian cities from 22-26 Oct-2022 (Delhi Mumbai, Kolkata and Chennai). Jio expects to rollout 5G services pan-India by Dec-2023.
Bharti Airtel	Bharti has launched its 5G services across 8 Indian cities (Delhi, Mumbai, Varanasi, Bangalore and 4 others). Bharti expects to rollout 5G services across most Indian cities by Mar-2023, and pan-India by Mar-2024.
Vodafone Idea (VI)	Vodafone Idea mentioned that it would rollout 5G services "very soon", although no tangible timelines were provided.

Source: Company data, CreditSights.

1. We believe India's 5G scene will remain largely dominated by Jio and Bharti. This is underpinned by: 1) Sizable 5G spectrum acquired by both players at India's **recently concluded 5G auction** (Jio acquired 24.4 GHz of spectrum, Bharti acquired 19.8 GHz, while VI acquired a mere 6.2 GHz of spectrum), which enables them to have significantly stronger 5G competencies as compared to VI, and 2) VI's ongoing liquidity and debt woes that hinder its growth plans. We have observed that VI has continually ceded subscribers (across both its 2G and 4G customer bases) to market leaders Jio and Bharti over the past 13 months; this scenario can be described as a 'two-horse race' in the sector. As such, looking ahead as well, we believe Jio and Bharti are much-better positioned (strong balance sheets, cash flows) to secure stronger footholds in the nascent 5G space and maintain their market leadership at the expense of VI. While it seems that Bharti's initial rollout is quicker than Jio's, we still **maintain our view** that Jio's long-term 5G rollout pace will be more aggressive than Bharti's in view of its comparatively fiercer spectrum bidding and earlier pan-India rollout timeline.

2. We expect subscriber demand for 5G mobile services to grow only modestly over the next 2 years. On the one hand, the Indian population will be enticed by the benefits brought about by 5G (significantly quicker mobile internet speeds, lower connection latencies and more reliable connectivity than 4G), amid increased mobile data usage driven by the COVID-19 pandemic (work-from-home trends continue in certain areas). 4G SIM cards are also able to support 5G networks; this makes it easier for 4G subscribers to upgrade to 5G as they won't need to change their SIM cards. Yet on the other hand, we acknowledge that high 5G-compatible smartphone selling prices and costlier 5G data plans could deter price-conscious customers from switching to 5G. We note that India's GDP per capita stands low at \$2k, and hence, we think customers in Tier-2 and Tier-3 cities may not be currently inclined to purchase the more expensive 5G-enabled handset or subscribe to 5G plans. Rising inflationary pressures and growth slowdown concerns in the coming year could hinder the pace of 5G proliferation too. As such, we think that for the coming 6-12 months, it will mainly be customers in Tier-1 cities that may opt for the 5G enabled handsets and 5G mobile plans.

3. We anticipate 5G services to support ARPU growth ahead. We expect Jio and Bharti to price their 5G data plans ~10-12% higher than existing 4G data plans, as we believe the telcos would seek to monetize their recent costly airwaves acquired. Yet at the same time, the pricing premium will likely be not too high to avoid disincentivizing customers from upgrading to 5G. While the higher price point could be an issue for the less-affluent consumers, we take comfort that rollouts will be initially conducted in the Metro and Tier-1 cities (where residents are relatively more affluent, already use 4G and would be willing to

pay a premium for better services under 5G). Coupled with continued upgrades of 2G/3G users to higher-margin 4G plans, along with further anticipated mobile tariff hikes as hinted by all three telcos, we see the higher 5G pricing as a catalyst to aid ARPU growth ahead.

4. We anticipate hefty 5G capex to induce a mildly negative (albeit unsurprising and manageable) impact on the credit profiles of both Reliance Industries (or “RIL”, which owns Jio) and Bharti. Jio has guided towards 5G capex of INR 2 tn/\$25 bn “over the next few years” (~\$5-\$8 bn p.a./ INR 405 bn-INR 648 bn p.a.), while Bharti has earmarked 5G capex of \$3 bn/INR 243 bn p.a. over the coming 2-3 years. While the expected capex is on the high end, the quantum is in line with our expectations and we are not overly concerned about the credit impact as: 1) Both RIL and Bharti have strong operating cash flow generation; 2) Both RIL and Bharti have built sizable war chests to fund their capex needs; RIL received a cumulative INR 2.75 tn/\$33.6 bn of equity investments from **Google, Facebook and other private equity firms** in 2020. Bharti received a **\$700 mn cash investment from Google** in Feb-22 and launched an INR 210 bn equity rights issue in Aug-21); 3) Both RIL and Bharti maintain healthy net leverage and strong interest cover (FY22 net leverage: 2.2x and 3.0x respectively, FY22 interest cover: 7.6x and 3.4x respectively), which provide elbowroom for deterioration if greater debt needs to be incurred. We also take comfort in their Investment Grade ratings, which provide them with strong funding market access and the ability to borrow from the onshore/offshore loan/bond markets too. An IPO may also be on the cards for Jio; Chairman Mukesh Ambani said in the recent Reliance AGM that he will update investors regarding this potential development next year. Were this to go through, Jio’s 5G capex needs may be met partially through equity infusion. Overall, while we expect 5G capex to spur a mild deterioration in the credit profiles of the two telcos, we believe the impact is manageable and anticipate their leverage levels to remain manageable.

For other research on India Telecom, please see:

[Bharti F1Q23: Strong Earnings Momentum](#)

[India Telecom: Impact of Govt. Relief Package](#)

[India Telecom: Thoughts on Upcoming 5G Auction](#)

[RIL F1Q23: Retail, Telecom Perform Strongly](#)

[S & SEA Corporates: Currency Risk Exposure](#)

[S & SEA Corporates: IG Top Picks](#)

AUTHORS

Jonathan Tan
Analyst - Asia-Pacific Corporates

Lakshmanan R, CFA, FRM
Senior Analyst – Asia-Pacific Corporates

Rohan Kapur, CFA
Analyst - Asia-Pacific Corporates

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