

August 2, 2022

Stage set for 5G launch...

The spectrum auction concluded with the government pocketing ₹ 1,50,173 crore (equated annual receipts of ₹ 13429 crore for 20 years). As expected, the focus of top 2 telcos was on the core spectrum for 5G, 3300 MHz (mid band) and 26 GHz (millimetre wave band), which attracted maximum bids. The key differential was pan-India bid for 700 MHz spectrum band by Jio to fortify its indoor coverage strength and possibly expand fixed wireless access (FWA) for home broadband services later, albeit at an incremental outlay of ₹ 39270 crore. Given the huge quantum of spectrum purchased, the overall weighted spectrum usage charges (SUC) are likely to go down (as zero SUC was notified for new spectrum auctioned along with removal of 3% floor rate) for Jio, Airtel by ₹ 2200 crore, ₹ 2000 crore, respectively, on annual basis. Also, we expect, ~15% tariff hike by telcos in the near term to compensate for near term cash outflows, as most incremental 5G benefits of industry use cases are still at least two to three years away.

Key highlights of auction

- Jio, Airtel, Vodafone Idea, Adani outlay was at ₹ 88078 crore, ₹ 43084 crore, ₹ 18799 crore, ₹ 212 crore, respectively. Assuming, operators opt for 20 year payout, annual equated instalment will be ₹ 7877 crore, ₹ 3853, crore, ₹ 1681 crore for Jio, Airtel, VIL, respectively
- Both Jio and Airtel also selectively bolstered their mid-band spectrum by adding on to 1800 and 1800/2100 bands, respectively
- Adani Data Networks made a modest outlay of ₹ 212 crore for 400 MHz of spectrum across six cities in the 26 GHz band for its captive networks needs
- VIL acquired 50 MHz each of mid band (3300 MHz band) in 17 priority circles and 200-800 MHz of 26 GHz band in 16 circles
- The government will allocate the spectrum over the next fortnight and 5G services are expected to start rolling out by October in the beginning with major metro cities, in our view

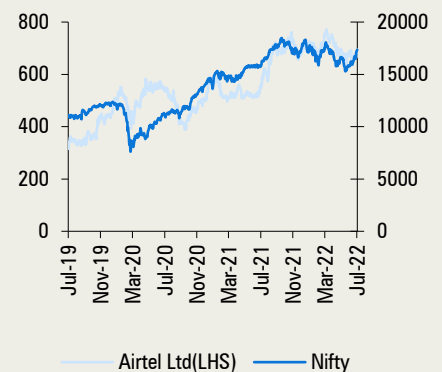
High spends warrant tariff hike in near term

We note that overall outlay had exceeded the government's expectation largely led by incremental spends by Jio in 700 MHz band. Notably, the top two operators have also added higher millimetre wave band given the notification that new spectrum will have zero SUC and floor of 3% was removed, which will bring down the weighted average SUC for telcos. Currently, the three private telcos pay 3.6-4.1% as SUC on AGR. Post new spectrum deployment, Jio and Airtel will have annual savings of ₹ 2200 crore and ₹ 2000 crore, respectively, eventually partly subsidising the spectrum annual payout. **We also expect ~15% tariff hike by telcos in the near term to compensate for near term cash outflows as most incremental 5G benefits of industry use cases are still at least two to three years away.**

Remain constructive on Jio, Airtel; VIL to lag behind...

Post spectrum auction, we expect the relative positioning of top two telcos (Jio/Airtel) to get strengthened further with churn odds for VIL increasing as the services coverage/capacity of Jio/Airtel would be better. Airtel is more comfortable in terms of net cash outlay with net benefit of SUC benefit to cover more than 50% of incremental annual payout for spectrum (~28% of incremental annual payout will be covered by SUC benefits for Jio). Furthermore, Jio's positioning in the overall FWA could propel its home broadband growth momentum in the medium to long term. Thus, we remain constructive on Jio and Airtel as focus shifts to quantum and timing on tariff hike. We incorporate the spectrum spends, SUC benefits and maintain **BUY** rating on Airtel with unchanged target price of ₹ 860/share.

Price Chart



Key Risks

- Any strategic fund raise by VIL, thereby increasing competition
- Delay in tariff hike

Snapshot of spectrum outlay...

Exhibit 1: Player and band wise outlays

₹ crore	Airtel	Jio	VIL	Adani	Total Payout
700 MHz	-	39,270.0	-	-	39,270.0
800 MHz	-	1,050.0	-	-	1,050.0
900 MHz	348.8	-	-	-	348.8
1800 MHz	2,763.6	7,027.6	584.8	-	10,376.0
2100 MHz	2,680.0	-	500.0	-	3,180.0
2500 MHz	-	-	650.0	-	650.0
3300 MHz	31,700.0	33,740.0	15,150.0	-	80,590.0
26 GHz	5,592.0	6,990.0	1,914.5	212.0	14,708.5
Total Payout	43,084.4	88,077.6	18,799.3	212.0	1,50,173.3
Equated Annual Payout	3,852.9	7,876.5	1,681.1	19.0	13,429.4

Source: Company, ICICI Direct Research

Exhibit 2: Player, band wise quantum purchased

MHz	Airtel	Jio	VIL	Adani	Quantam Sold
700 MHz	-	220.0	-	-	220.0
800 MHz	-	20.0	-	-	20.0
900 MHz	12.8	-	-	-	12.8
1800 MHz	25.0	60.0	3.4	-	88.4
2100 MHz	30.0	-	5.0	-	35.0
2500 MHz	-	-	20.0	-	20.0
3300 MHz	2,200.0	2,440.0	850.0	-	5,490.0
26 GHz	17,600.0	22,000.0	5,350.0	400.0	45,350.0
Quantam Sold	19,867.8	24,740.0	6,228.4	400.0	51,236.2

Source: Company, ICICI Direct Research

Exhibit 3: Airtel – Change in estimates

(₹ Crore)	FY23E			FY24E			
	Old	New	% Change	Old	New	% Change	
Revenue	1,35,061	1,36,695	1.2	1,49,722	1,55,052	3.6	We have baked ~15% tariff hike in India wireless in H2FY22
EBITDA	70,054	70,349	0.4	79,373	83,633	5.4	Also build in SUC benefits
EBITDA Margin (%)	51.9	51.5	-40 bps	53.0	53.9	93 bps	
PAT	15,243	12,868	-15.6	21,623	21,637	0.1	
EPS (₹)	25.2	21.3		35.1	35.7		

Source: DOT, Company, ICICI Direct Research

Exhibit 4: Jio – Change in estimates

(₹ Crore)	FY23E			FY24E			
	Old	New	% Change	Old	New	% Change	
Revenue	92,981.8	95,128.8	2.3	1,07,063	1,08,850	1.7	
EBITDA	47,076.0	49,511.4	5.2	55,881	58,629	4.9	Bake in SUC benefits
EBITDA Margin (%)	50.6	52.0	142 bps	52.2	53.9	167 bps	
PAT	19,838.3	19,550.6	-1.4	22,783	21,992	-3.5	Bake in higher depreciation and interest outgo
EPS (₹)	4.4	4.3	-1.4	5.1	4.9	-3.5	

Source: DOT, Company, ICICI Direct Research

Exhibit 5: Jio – quantum purchased and outlay

Circle	Spectrum purchased					Amount paid (₹ crore)				
	800 Mhz	1800 Mhz	700 Mhz	3300 Mhz	26 GHz	800 Mhz	1800 Mhz	700 Mhz	3300 Mhz	26 GHz
Metros										
Delhi			10.0	100.0	1000.0			5090.0	4000.0	890.0
Mumbai			10.0	100.0	1000.0			4700.0	3500.0	780.0
Kolkata			10.0	100.0	1000.0			1730.0	1500.0	320.0
A Circles										
Maharashtra		10.0	10.0	100.0	1000.0		1900.0	3590.0	2900.0	630.0
Gujarat		10.0	10.0	100.0	1000.0		1500.0	2820.0	2300.0	500.0
Andhra Pradesh			10.0	100.0	1000.0			3180.0	2600.0	570.0
Karnataka			10.0	130.0	1000.0			2200.0	2340.0	400.0
Tamil Nadu & Chennai			10.0	100.0	1000.0			2530.0	2100.0	460.0
B Circles										
Kerala			10.0	130.0	1000.0			1100.0	1170.0	190.0
Punjab			10.0	100.0	1000.0			1120.0	900.0	200.0
Haryana			10.0	100.0	1000.0			710.0	600.0	130.0
UP - West	5.0		10.0	130.0	1000.0	665.0		1540.0	1690.0	290.0
UP - East		10.0	10.0	100.0	1000.0		1645.9	1710.0	1400.0	300.0
Rajasthan		10.0	10.0	130.0	1000.0		750.0	1460.0	1430.0	250.0
Madhya Pradesh		10.0	10.0	130.0	1000.0		880.0	1560.0	1690.0	290.0
West Bengal			10.0	100.0	1000.0			1020.0	900.0	190.0
C Circles										
Himachal Pradesh			10.0	130.0	1000.0			260.0	260.0	50.0
Bihar			10.0	100.0	1000.0			1450.0	1200.0	270.0
Odisha		10.0	10.0	100.0	1000.0		351.8	620.0	500.0	120.0
Assam	5.0		10.0	100.0	1000.0	250.0		570.0	500.0	100.0
North East	5.0		10.0	130.0	1000.0	65.0		150.0	130.0	30.0
J & K	5.0		10.0	130.0	1000.0	70.0		160.0	130.0	30.0
Total	20.0	60.0	220.0	2440.0	22000.0	1050.0	7027.6	39270.0	33740.0	6990.0

Source: DOT, Company, ICICI Direct Research

Exhibit 6: Jio post auction holding

Circle	Jio Spectrum Holding (post-auction)					
	800 Mhz	1800 Mhz	2300 Mhz	700 Mhz	3300 Mhz	26 GHz
Metros						
Delhi	10.0	10.0	40.0	10.0	100.0	1000.0
Mumbai	15.0	10.0	40.0	10.0	100.0	1000.0
Kolkata	10.0	10.0	40.0	10.0	100.0	1000.0
A Circles						
Maharashtra	10.0	20.0	40.0	10.0	100.0	1000.0
Gujarat	10.0	20.0	40.0	10.0	100.0	1000.0
Andhra Pradesh	10.0	10.0	40.0	10.0	100.0	1000.0
Karnataka	10.0	10.0	40.0	10.0	130.0	1000.0
Tamil Nadu & Chennai	10.0	10.0	40.0	10.0	100.0	1000.0
B Circles						
Kerala	10.0	10.0	40.0	10.0	130.0	1000.0
Punjab	10.0	10.0	40.0	10.0	100.0	1000.0
Haryana	10.0	10.0	40.0	10.0	100.0	1000.0
UP - West	10.0	10.0	40.0	10.0	130.0	1000.0
UP - East	10.0	20.0	40.0	10.0	100.0	1000.0
Rajasthan	10.0	20.0	40.0	10.0	130.0	1000.0
Madhya Pradesh	10.0	20.0	40.0	10.0	130.0	1000.0
West Bengal	10.0	10.6	40.0	10.0	100.0	1000.0
C Circles						
Himachal Pradesh	10.0	10.4	40.0	10.0	130.0	1000.0
Bihar	10.0	10.0	40.0	10.0	100.0	1000.0
Odisha	10.0	20.0	40.0	10.0	100.0	1000.0
Assam	10.0	10.0	40.0	10.0	100.0	1000.0
North East	10.0	10.0	40.0	10.0	130.0	1000.0
J &K	10.0	10.0	40.0	10.0	130.0	1000.0
Total	225.0	281.0	880.0	220.0	2440.0	22000.0

Source: DOT, Company, ICICI Direct Research

Exhibit 7: Airtel – Quantum purchased and outlay

Circle	Purchased Spectrum					Amount Paid (₹ crore)				
	900 Mhz	1800 Mhz	2100 Mhz	3300 Mhz	26 GHz	900 Mhz	1800 Mhz	2100 Mhz	3300 Mhz	26 GHz
Metros										
Delhi			5.0	100.0	800.0			1120.0	4000.0	712.0
Mumbai		4.0		100.0	800.0		944.0		3500.0	624.0
Kolkata		5.0		100.0	800.0		485.0		1500.0	256.0
A Circles										
Maharashtra		5.0		100.0	800.0		950.0		2900.0	504.0
Gujarat			5.0	100.0	800.0		0.0	625.0	2300.0	400.0
Andhra Pradesh				100.0	800.0				2600.0	456.0
Karnataka				100.0	800.0				1800.0	320.0
Tamil Nadu & Chennai				100.0	800.0				2100.0	368.0
B Circles										
Kerala			5.0	100.0	800.0			240.0	900.0	152.0
Punjab				100.0	800.0				900.0	160.0
Haryana			5.0	100.0	800.0			170.0	600.0	104.0
UP - West				100.0	800.0				1300.0	232.0
UP - East		0.8		100.0	800.0		131.7		1400.0	240.0
Rajasthan				100.0	800.0		0.0		1100.0	200.0
Madhya Pradesh				100.0	800.0		0.0		1300.0	232.0
West Bengal			5.0	100.0	800.0			185.0	900.0	152.0
C Circles										
Himachal Pradesh		5.0		100.0	800.0		70.0		200.0	40.0
Bihar			5.0	100.0	800.0			340.0	1200.0	216.0
Odisha		5.2		100.0	800.0		182.9		500.0	96.0
Assam	3.8			100.0	800.0	212.8			500.0	80.0
North East	4.0			100.0	800.0	56.0			100.0	24.0
J & K	5.0			100.0	800.0	80.0			100.0	24.0
Total	12.8	25.0	30.0	2200.0	17600.0	348.8	2763.6	2680.0	31700.0	5592.0

Source: DOT, Company, ICICI Direct Research

Exhibit 8: Airtel post auction holding

Circle	Holding (post-auction)						
	800 Mhz	900 Mhz	1800 Mhz	2100 Mhz	2300 Mhz	3300 Mhz	26 GHz
Metros							
Delhi	0.0	6.0	7.0	15.0	30.0	100.0	800.0
Mumbai	0.0	5.0	15.0	5.0	30.0	100.0	800.0
Kolkata	0.0	7.0	15.0	0.0	30.0	100.0	800.0
A Circles							
Maharashtra	5.0	0.0	20.0	10.0	30.0	100.0	800.0
Gujarat	0.0	4.2	10.0	15.0	40.0	100.0	800.0
Andhra Pradesh	0.0	9.0	21.4	5.0	30.0	100.0	800.0
Karnataka	0.0	8.8	20.0	10.0	30.0	100.0	800.0
Tamil Nadu & Chennai	0.0	5.0	20.0	10.0	30.0	100.0	800.0
B Circles							
Kerala	0.0	4.6	10.0	15.0	30.0	100.0	800.0
Punjab	0.0	10.0	15.0	5.0	40.0	100.0	800.0
Haryana	5.0	0.0	10.0	15.0	40.0	100.0	800.0
UP - West	5.0	0.0	15.0	10.0	40.0	100.0	800.0
UP - East	0.0	11.2	16.8	5.0	40.0	100.0	800.0
Rajasthan	0.0	6.0	10.0	15.0	40.0	100.0	800.0
Madhya Pradesh	5.0	0.0	15.0	10.0	30.0	100.0	800.0
West Bengal	0.0	9.4	10.0	15.0	40.0	100.0	800.0
C Circles							
Himachal Pradesh	0.0	10.0	20.0	5.0	40.0	100.0	800.0
Bihar	0.0	11.2	18.0	15.0	40.0	100.0	800.0
Odisha	0.0	11.2	19.6	5.0	40.0	100.0	800.0
Assam	0.0	11.8	15.5	10.0	40.0	100.0	800.0
North East	0.0	14.0	10.0	10.0	40.0	100.0	800.0
J & K	0.0	11.2	15.0	10.0	40.0	100.0	800.0
Total	20.0	155.6	328.3	215.0	790.0	2200.0	17600.0

Source: DOT, Company, ICICI Direct Research

Exhibit 9: VIL – Quantum purchased and outlay

Circle	Spectrum Purchased					Amount Paid (₹ crore)				
	2500 Mhz	1800 Mhz	2100 Mhz	3300 Mhz	26 GHz	2500 Mhz	1800 Mhz	2100 Mhz	3300 Mhz	26 GHz
Metros										
Delhi				50.0	200.0				2000.0	178.0
Mumbai				50.0	200.0				1750.0	156.0
Kolkata				50.0	200.0				750.0	64.0
A Circles										
Maharashtra				50.0	400.0				1450.0	252.0
Gujarat				50.0	450.0				1150.0	225.0
Andhra Pradesh	10.0	3.4		50.0	200.0	510.0	584.8		1300.0	114.0
Karnataka			5.0	50.0	200.0			500.0	900.0	80.0
Tamil Nadu & Chennai				50.0	300.0				1050.0	138.0
B Circles										
Kerala				50.0	800.0				450.0	152.0
Punjab	10.0			50.0	300.0	140.0			450.0	60.0
Haryana				50.0	400.0				300.0	52.0
UP - West				50.0	350.0				650.0	101.5
UP - East				50.0	250.0				700.0	75.0
Rajasthan				50.0	300.0				550.0	75.0
Madhya Pradesh				50.0	400.0				650.0	116.0
West Bengal				50.0	400.0				450.0	76.0
C Circles										
Himachal Pradesh										
Bihar				50.0					600.0	
Odisha										
Assam										
North East										
J & K										
Total	20.0	3.4	5.0	850.0	5350	650.0	584.8	500.0	15150.0	1914.5

Source: DOT, Company, ICICI Direct Research

Exhibit 10: VIL post auction holding

Circle	Holding (post-auction)						
	900 Mhz	1800 Mhz	2100 Mhz	2300 Mhz	2500 Mhz	3300 Mhz	26 GHz
Metros							
Delhi	10.0	10.6	5.0	0.0	20.0	50.0	200.0
Mumbai	11.0	14.6	10.0	0.0	20.0	50.0	200.0
Kolkata	7.0	15.0	10.0	0.0	20.0	50.0	200.0
A Circles							
Maharashtra	14.0	12.4	15.0	10.0	30.0	50.0	400.0
Gujarat	11.0	20.8	10.0	0.0	30.0	50.0	450.0
Andhra Pradesh	5.0	10.0	5.0	0.0	20.0	50.0	200.0
Karnataka	5.0	15.0	10.0	0.0	0.0	50.0	200.0
Tamil Nadu & Chennai	5.0	11.4	15.0	0.0	0.0	50.0	300.0
B Circles							
Kerala	12.4	20.0	10.0	10.0	20.0	50.0	800.0
Punjab	5.6	15.0	10.0	0.0	20.0	50.0	300.0
Haryana	12.2	15.8	15.0	0.0	20.0	50.0	400.0
UP - West	11.2	15.0	10.0	0.0	20.0	50.0	350.0
UP - East	5.6	10.0	20.0	0.0	20.0	50.0	250.0
Rajasthan	6.4	16.2	15.0	0.0	20.0	50.0	300.0
Madhya Pradesh	7.4	18.6	5.0	10.0	20.0	50.0	400.0
West Bengal	7.4	23.4	5.0	0.0	20.0	50.0	400.0
C Circles							
Himachal Pradesh	0.0	11.2	5.0	0.0	10.0	0.0	0.0
Bihar	0.0	17.8	5.0	0.0	10.0	50.0	0.0
Odisha	5.0	10.8	5.0	0.0	20.0	0.0	0.0
Assam	0.0	25.0	5.0	0.0	20.0	0.0	0.0
North East	0.0	25.8	5.0	0.0	20.0	0.0	0.0
J & K	0.0	17.0	5.0	0.0	10.0	0.0	0.0
Total	141.2	351.4	200.0	30.0	390.0	850.0	5350.0

Source: DOT, Company, ICICI Direct Research

t Press Briefing and Release, ICICI Direct Research

Exhibit 11: Adani spectrum outlay

Circle	Spectrum Purchased	Amount Paid (₹ crore)
	26 GHz	26 GHz
Metros		
Mumbai	100.0	78.0
A Circles		
Gujarat	100.0	50.0
Andhra Pradesh	50.0	28.5
Karnataka	50.0	20.0
Tamil Nadu & Chennai	50.0	23.0
B Circles		
Rajasthan	50.0	12.5
Total	400.0	212

Source: DOT, Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -5% to -15%;

Sell: <-15%



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