

Airtel, Jio to see free cash flow increase from FY25

By Urvi Malvania, ET Bureau • Last Updated: Aug 31, 2023, 02:49 PM IST

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Synopsis

Analysts predict that the capital expenditure for Bharti Airtel and Reliance Jio will decrease starting from FY25, leading to improved free cash flows. The delay in tariff hikes is anticipated to strengthen the average revenue per user (ARPU) growth story, with the market moving towards a duopoly.



Representative Image

Capital expenditure for [Bharti Airtel](#) and Reliance Jio is expected to taper from FY25, which will in turn improve free cash flows for the two telcos, analysts said.

A near-term delay in tariff hikes will mean that the market will rapidly move towards a duopoly which will in turn strengthen the structural average revenue per user (ARPU) growth story, they added.

“Bharti and Jio’s FCF will grow from FY25 aided by capex normalisation and regular tariff hikes; we expect Bharti’s consolidated FCF to rise to Rs 40000-45000 crore from FY25 (vs. Rs 30, 000 crore in FY23) enabling it to accelerate reduction of its net debt,” [JM Financial](#) said in a recent report.

It expects Jio’s FCF to touch 24, 500 crore in FY25 from around Rs 14, 600 crore in FY23.

Both Jio and [Airtel](#) saw elevated capex in FY23 and the trend is expected to continue this fiscal as well, given both have front loaded 5G investments, analysts observed.

On the other hand, the brokerage expects Vodafone Idea’s capex to continue being muted given the much-delayed fund-raising by the cash-strapped telco.

As Vi struggles to invest in its 4G network and roll out commercial 5G services due to severe liquidity concerns, the JM Financial analysts expect the market to consolidate further.

The next round of headline tariff hikes is expected to occur in the second or third quarter of FY25, after the general elections. Tariff hikes will be instrumental in growing ARPUs for the telcos.

“Our calculation suggests that the industry needs to achieve an ARPU of Rs 267-297 in the next 3-4 years for a pre-tax RoCE of 12-15%,” JM Financial observed in its report.

In fact, JMF analysts said that the delay in tariff hikes will eventually contribute to ARPU growth.

“Near-term delay in tariff hike is likely to only strengthen the structural ARPU growth story as it is likely to expedite the transition to a duopoly market (by further deterring VIL’s fund-raise plan),” they said. In addition to tariff hikes, customer upgrades to mobile broadband (MBB) are also expected to drive up ARPU.

As a result, the brokerage expects wireless industry revenue to touch Rs 3, 40, 000 crore by FY27.

For Vodafone Idea, a tariff hike is paramount to maintain business viability, especially if the fund raise is further delayed. JMF estimates that the telco needs its ARPU (Rs 139 as on June 2023 end) to increase to Rs 390 by FY27 if it is to successfully make the payments due to the government.

Vodafone Idea meanwhile is expected to continue facing customer churn due to the lack of 5G rollout, and competition from the Jio Bharat phone in its 2G subscriber base.

The telco’s 4G base stands at 123 million while its 2G base is currently 100 million, both of which could be susceptible to competitive measures taken by Airtel and Jio.

The brokerage firm also said that while Jio and Airtel are pushing their commercial fixed wireless access (FWA) devices into the market, 5G monetisation will be gradual unless they find a relevant exclusive use case.