

In rationality, we prevail. Jio's bundled offer of JioPhone Next seems comparable to other existing entry-level devices on an overall cost basis, contrary to apprehensions. Interestingly, it also seems a less attractive proposition when compared to Airtel's recent cashback scheme on a wide variety of new 4G devices. We believe that these plans are unlikely to cause any major disruption and hence, the stage seems set for the operators to raise tariffs for the prepaid smartphone segment and improve economics in due course. We reiterate BUY on Bharti, as the pure play on telecom turnaround.

Rollout of dual-SIM JioPhone Next with specifications a shade lower than entry-level devices

RIL has announced rollout of its entry-level 4G smartphone, JioPhone Next, co-developed with Google, from November 4 at a (1) full price of Rs6,499 or (2) upfront payment + processing fees of Rs2,500 and 18-24 months EMI ranging from Rs300-600 offering different levels of bundled data and voice services. The new smartphone version allows for dual SIM unlike the single-SIM locked old feature phone; however, the first SIM is locked with Jio and mobile data connectivity will be provided only through that one. We note that a few specifications of JioPhone Next such as screen size, processor speeds and battery capacity are a shade lower than popular entry-level devices from other companies such as Redmi, Realme and Samsung and the upfront full price is also 7-20% cheaper currently. The device will operate on Pragati OS, an optimized version of Android that is tailor-made for Indian users by Google and Jio together with features like voice first, read aloud and translate now in 10 popular languages.

Bundled cost is comparable with other devices, but seems less attractive than Airtel's scheme

We highlight that the total bundled cost of JioPhone Next turns out to be broadly comparable with entry-level devices of Redmi and Realme financed through other retail channels, if the user subscribes to Jio's plans. Interestingly, Airtel's recent offer of providing back-ended cashback of Rs6,000 on several smartphone devices seems less costly for a customer on an overall basis than JioPhone Next; Airtel's scheme also provides (1) flexibility to choose from several popular devices, which can be financed through other retail channels and (2) a free screen replacement in the first year. For above comparisons, we assume that the cost of telecom services provided by Jio and Airtel would not go up in the given period, an unlikely scenario hopefully!

Lack of pricing aggression for now to preclude disruption in the near term

The evident lack of pricing aggression with JioPhone Next is a welcome change and it may prevent any meaningful disruption for other telecom operators, in our view. The high upfront payment of Rs2,500 may deter any large-scale upgrade for 2G subscribers; on the other hand, bigger-screen entry-level devices at a comparable cost with financing and no upfront payment may make it difficult for JioPhone Next to become the smartphone of choice at lower-end 4G subscribers. We are not sure if bundled offering alone could be an attractive proposition for the customers. We do not rule out a plausible refresh on pricing front like the earlier JioPhone; however, it may happen sometime down the line if at all, with improvement in handset availability that may be constrained in the near term due to chip shortages.

Stage set for tariff hikes—if not now, then when? Bharti remains the best play

We believe the stage is set for telecom companies to raise tariffs now as (1) the recent policy measures solved VIL's cash flow issue, while confirming the government's intent to maintain industry structure with three private players and one PSU (or 2+2 eventually) over the next few years and (2) Jio is being less aggressive on pricing with JioPhone Next. The operators may choose to enhance focus on improving network experience and differentiating service offerings rather than competing on tariff front. In our view, Bharti or VIL can initiate tariff hikes and Jio may very well reciprocate such a move, as it has not been able to raise its non-telecom revenues in a meaningful way so far versus expectations, while its parent, RIL may seek incremental cash flows to deploy significant capital on new commerce and new energy businesses.

Tarun Lakhota

Hemang Khanna

Exhibit 1: Bundled plans for JioPhone Next



JioPhone Next
CREATED WITH 

Get JioPhone Next at only ₹1999

Pay the balance amount in easy EMI

Always-on plan		Large plan		XL plan		XXL plan	
24 months	18 months	24 months	18 months	24 months	18 months	24 months	18 months
₹300 per month	₹350 per month	₹450 per month	₹500 per month	₹500 per month	₹550 per month	₹550 per month	₹600 per month
5 GB + 100 min/month		1.5 GB/day + Unlimited Voice		2 GB/day + Unlimited Voice		2.5 GB/day + Unlimited Voice	

Processing fees of ₹501

JioPhone Next can also be purchased upfront without financing for only ₹6499

T&C apply

Source: Company, Kotak Institutional Equities

Exhibit 2: Bundled pricing for JioPhone Next seems comparable to other entry-level devices with financing scheme and Jio's services
Comparison of JioPhone Next with other entry-level 4G smartphone devices using Jio's services

	JioPhone Next	Redmi 9A	Realme C11	Samsung M02
Price (Rs)	6,499	6,999	7,499	8,150
Specifications				
Android version	Pragati OS	10	10	11
Screen				
Size (inches)	5.45	6.50	6.50	6.50
Resolution	1440 x 720	1600 x 720	1600 x 720	1600 x 720
Camera (MP)				
Primary	13	13	13	13+2 (Macro)
Front	8	5	2	5
CPU	Snapdragon QM215	Mediatek Helio G25	Mediatek Helio G35	MediaTek 6739
Cores	Quad core 1.3GHz	Octa core 2 GHz	Octa core 2.3 GHz	Quad core 1.5 GHz
RAM (GB)	2	2	2	3
In-built storage (GB)	32	32	32	32
Battery (mAh)	3,500	5,000	5,000	5,000
Number of SIMs	2	2	3	2
Bundled	Data SIM1 locked to Jio	NA	NA	NA
Overall cost (Rs)				
Upfront payment	1,999	—	—	—
Processing fee	501	—	—	—
EMI for 18 months (a) (b)	500	437	468	509
Monthly cost of 1.5GB/day data + unlimited voice	—	216	216	216
Total cost for 18 months	11,500	11,757	12,315	13,053
EMI for 24 months (a) (b)	450	339	364	396
Monthly cost of 1.5GB/day data + unlimited voice	—	216	216	216
Total cost for 24 months	13,300	13,324	13,924	14,692

Notes:

(a) We have compared Jio's EMI scheme including 1.5GB/day data + unlimited voice.

(b) Available financing options on online retail platforms.

Source: Company, Kotak Institutional Equities estimates

Exhibit 3: Airtel's cashback scheme seems better than JioPhone Next on an overall cost basis
Comparison of JioPhone Next with other entry-level 4G smartphone devices under Airtel's cashback scheme

	JioPhone Next	Airtel's cashback scheme for 4G smartphones		
		Redmi 9A	Realme C11	Samsung M02
Price (Rs)	6,499	6,999	7,499	8,150
Specifications				
Android version	Pragati OS	10	10	11
Screen				
Size (inches)	5.45	6.50	6.50	6.50
Resolution	1440 x 720	1600 x 720	1600 x 720	1600 x 720
Camera (MP)				
Primary	13	13	13	13+2 (Macro)
Front	8	5	2	5
CPU	Snapdrgon QM215	Mediatek Helio G25	Mediatek Helio G35	MediaTek 6739
Cores	Quad core 1.3GHz	Octa core 2 GHz	Octa core 2.3 GHz	Quad core 1.5 GHz
RAM (GB)	2	2	2	3
In-built storage (GB)	32	32	32	32
Battery (mAh)	3,500	5,000	5,000	5,000
Number of SIMs	2	2	3	2
Bundled	Data SIM1 locked to Jio	NA	NA	NA
Overall cost for 36 months (Rs)				
Upfront payment	1,999	—	—	—
Processing fee	501	—	—	—
EMI for 24 months (a) (b)	450	339	364	396
Monthly cost of 1.5GB/day data + unlimited voice	—	270	270	270
Cost of Jio's services for remaining 12 months	216	—	—	—
Cashback to Airtel Payments Bank over 36 months	—	6,000	6,000	6,000
Total cost for 36 months	15,894	11,874	12,474	13,242

Notes:

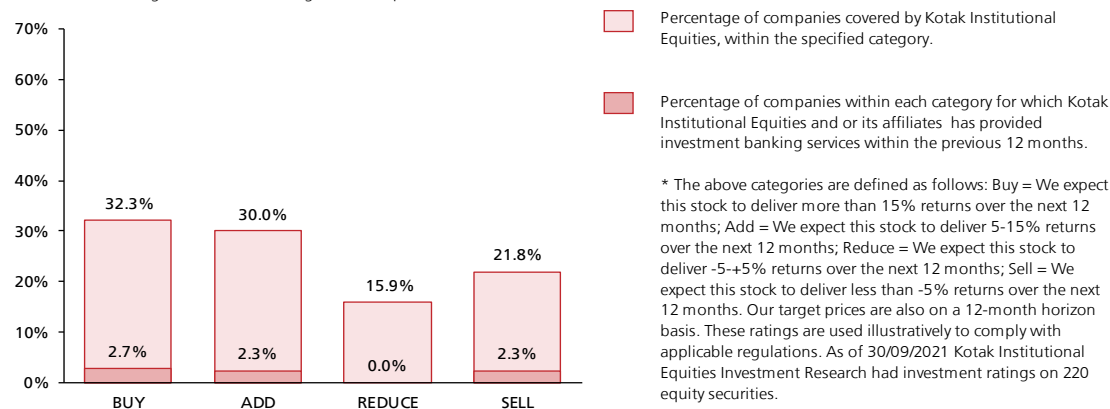
(a) We have compared Jio's EMI scheme including 1.5GB/day data + unlimited voice.

(b) Available financing options on online retail platforms.

Source: Companies, Kotak Institutional Equities estimates

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Source: Kotak Institutional Equities

As of September 30, 2021

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